General Mills

Cheerios
WHEATIES
NATURE VALLEY
Gold Medal
Betty Crocker
Bisquick
Hamburger Helper
Gorton's
Tom's
SMITHS
Red Lobster
YORK STEAK HOUSE
LIONEL
PARKER GAMES
Kenner
Miro
David Crystal
Monet
KIMBERLY
Eddie Bauer
LeeWards
Pennsylvania House

General Mills

ANNUAL REPORT

MAY 31, 1976 • MAY 29, 1977

General Mills has been known for many years as a leading producer of packaged consumer foods such as breakfast cereals, flour, baking mixes, desserts and seafood. Less known, but increasingly important during recent years, are other General Mills' activities: food products and ingredients used in hotels and other institutions; company-owned Red Lobster Inns and York Steak House family restaurants; toys, games and crafts; jewelry and apparel; and other hobby and recreational items. Specialty chemicals represent the company's primary activity in industrial markets. This fiscal 1977 annual report describes the progress of General Mills' products and services, including those shown on this page.

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General Mills

Managing for Long-Term Success

The life of a business corporation is limited, not by time, but by its ability to serve. As long as it serves effectively to meet human needs, its life is endless. But effective and efficient service does not just happen. It springs from carefully planned strategies to meet environmental change. In managing for long-term success, General Mills seeks to maintain balance in people, products and markets to fulfill the needs and desires of consumers in every walk of life under the varying conditions of an ever changing world.

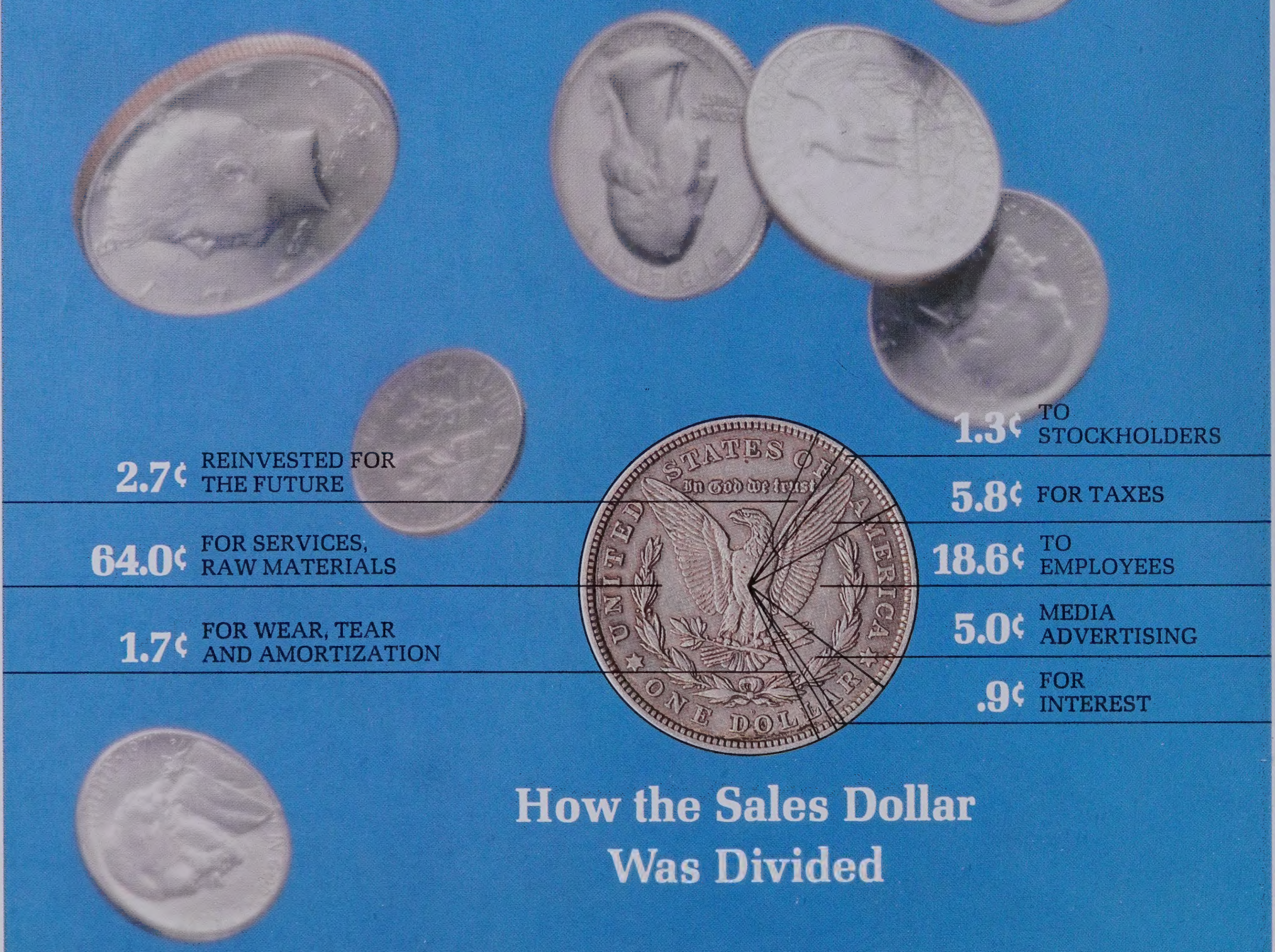
NOTICE TO STOCKHOLDERS: The annual meeting of the stockholders of General Mills, Inc., will be held at 2:00 p.m., Central Daylight Time, September 26, 1977, at Golden Valley (Minneapolis), Minn. The **Notice of Annual Meeting of Stockholders and Proxy Statement** is being mailed to reach stockholders on or about August 29, 1977.

The Year in Brief

(in thousands)

	Fiscal Year Ended		
	May 29, 1977 (52 Weeks)	May 30, 1976 (53 Weeks)	Increase
Sales	$2,909,404	$2,644,952	10.0%
Net earnings	117,034	100,538	16.4%
Earnings per dollar of sales	4.0¢	3.8¢	
Earnings per common share and common share equivalent	$ 2.36	$ 2.04	15.7%
Common stock dividends	39,083	32,391	
Net earnings after dividends	77,951	68,147	
Wages, salaries and employee benefits	541,193	476,099	13.7%
Taxes — income, payroll, property, etc.	170,005	148,750	14.3%
— per cent of earnings before all taxes	59.3%	59.7%	

Data should be read in conjunction with the financial statements on pages 23-37.



How the Sales Dollar Was Divided

EXECUTIVE OFFICES • 9200 WAYZATA BOULEVARD • MINNEAPOLIS, MINNESOTA
Mailing Address: P.O. Box 1113, Minneapolis, Minnesota 55440 • Telephone: (612) 540-2311

General Mills

August 19, 1977

Chairman's and President's Report

TO OUR STOCKHOLDERS AND EMPLOYEES:

In fiscal 1977, General Mills sustained its long-term record of progress and took significant steps to assure future success. As the results on the opposite page show, the company attained an 11th successive year of increase in sales and a 15th consecutive year of gain in earnings before extraordinary items. Earnings per share grew 15.7 per cent, exceeding the strong 15.1 per cent compound annual growth rate for the past five years — the greatest period of growth in General Mills' 49-year history. Additionally, dividends per share grew 20 per cent, marking a 13th straight year of increase.

Beyond these accomplishments, we took aggressive steps in 1977 to achieve long-term progress, investing record amounts for new fixed assets, research and development and media support for our diversified consumer product and service lines. These investments helped to improve the company's market position in virtually every major industry area in which it competes. All were financed internally as the company strengthened an already sound financial position.

The above results would not have been possible without the efforts of the company's 61,797 employees, including 10,019 new employees, and the support of our customers and suppliers.

OPERATING HIGHLIGHTS: Reflecting generally favorable business conditions, each of the company's major areas attained excellent rates of sales gain: 9.0 per cent for foods, 12.0 per cent for consumer non-foods and 14.1 per cent for specialty chemicals. As in the previous year, inflation played only a minor role; more than three-quarters of the sales gain resulted from volume increases. Growth in operating profits was also reported by each major business area: 6.5 per cent for foods, 27.3 per cent for consumer non-foods and 68.5 per cent for specialty chemicals.

Our volume gains, together with improved operating efficiencies, enabled earnings growth to exceed the rate of sales gain; profits per sales dollar rose from 3.8 cents to 4.0 cents. This improvement was attained despite a $5.5 million after-tax loss resulting from devaluation of the Mexican peso.

General Mills' food businesses, supported by aggressive marketing programs and new production capacity, improved market share in most segments while achieving excellent overall volume gains. A major portion of our 30.7 per cent increase in media investments, about half of which was required by escalating television rates, supported established food lines and aggressive food product introductions.

Restaurant sales grew 33.3 per cent to $240.9 million, primarily through addition of 40 new restaurants in the Red Lobster Inns group. Operating profits increased 8.9 per cent, reflecting higher seafood costs and severe winter weather which measurably reduced away-from-home eating and also increased costs in January and February.

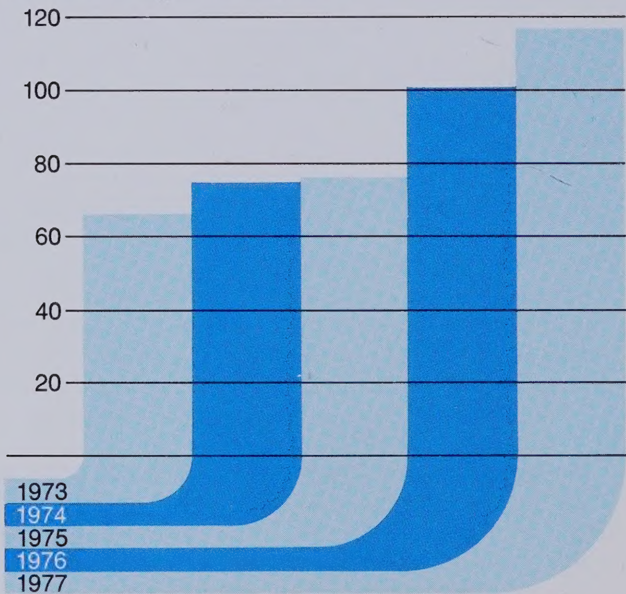
Substantial growth in operating profits of consumer non-foods resulted from a sixth successive year of exceptional gains by worldwide craft, game and toy operations, which grew 26.0 per cent, and from record profitability by both fashion and specialty retailing activities. Furniture results were disappointing; actions have been taken which should lead to improvement in fiscal 1978.

Specialty chemicals continued a strong recovery which began in the final half of fiscal 1976, achieving record earnings.

MANAGEMENT: Since publication of the last Annual Report, we completed a year of management transition. Aside from our election to Chairman of the Board and President, two seasoned and able executives have taken on new top management assignments. Donald F. Swanson, Senior Executive Vice President, was elected Chief Financial Officer, and Robert K. Swanson was elected Executive Vice President with responsibilities for the Craft, Game & Toy, Fashion and Travel Groups. A number of younger managers were given increased responsibilities; a summary of these changes is described in the BUSINESS REVIEW of this report.

We wish to express our appreciation to James P. McFarland, who retired as Chairman of the Board on February 1, 1977. We are deeply indebted for his key contributions to the growth and success of

Net Earnings *millions of dollars*



General Mills in his 43 years of service.

CORPORATE DEVELOPMENT: Several important actions were taken during the year designed to increase the potential for General Mills' future growth. Two acquisitions with substantial expansion potential were completed: the 48-unit chain of York Steak House family restaurants and Wallpapers To Go, an 11-unit West Coast chain of flexible wall covering specialty retailing stores. Tentative agreement was reached to acquire Ship 'n Shore, Inc., the leading manufacturer of women's shirts and blouses, for $35 million cash. We hope to complete this acquisition in the near future.

Perhaps the most important strategic move was approval by the Board of Directors of a letter of intent for sale of the company's subsidiary, General Mills Chemicals, Inc., to Henkel KGaA, a major privately held German company. With consummation of this transaction, expected in the first half of fiscal 1978, we will receive proceeds of about $74 million cash for the equity of the chemicals operations; in addition, the subsidiary's intercorporate debt of about $24 million will be replaced by a medium-term interest-bearing note. General Mills will realize a gain of $5 to 6 million from the sale. The gain, interest income and use of the cash proceeds will more than offset the loss of specialty chemicals earnings in 1978.

While specialty chemicals is a strong business, our company's orientation in recent years has been almost totally toward consumer products and services. We believe the sale of our specialty chemical operations and redeployment of the proceeds to further existing consumer product and service strategies will help General Mills become an even stronger company than it is today.

FUTURE OUTLOOK: We remain optimistic about General Mills' future. Though inflation still poses a threat in some areas, we believe fiscal 1978 should see continuation of economic recovery worldwide. As the year begins, we find most of our operations reporting favorable trends and prospects.

We shall continue to emphasize internal growth in existing industry areas. This means vigorous efforts to increase volume, expand retailing operations and improve operating efficiencies. To support this strategy, we are planning gross capital expenditures in the $125-135 million range. The breakdown of these expenditures by industry area is similar to last year's. Approximately 48 per cent is planned for additional plant capacity and equipment for our food businesses; 29 per cent will support growth of restaurant activities, including 30 new Red Lobster Inns and 20 York Steak Houses; and 23 per cent will be invested in our consumer non-food businesses, including 17 new specialty retailing stores. All of the expenditures for fixed assets will be financed internally.

General Mills remains committed to leadership in the marketing of consumer goods and services. We are maintaining our strategy of seeking consistent growth from balanced consumer industry areas. This requires close attention to trends and changes in the environment which reflect consumer needs and life styles and which ultimately affect the company's operations. We are confident results in fiscal 1978 will sustain General Mills' long-term record of progress.

E. Robert Kinney
Chairman of the Board

H.B. Atwater, Jr.
President

Business Review

General Mills' corporate strategy is to seek consistent growth through product and marketing innovation, primarily in consumer goods and services. This approach is founded on the belief that the company's basic strengths and talents are in the marketing of consumer products and services upon which recognized brand positions and market segment leadership can be established. Over the years, this strategy has resulted in impressive corporate growth from a balanced and strong group of businesses concentrated in relatively few industries.

This strategy continued to produce excellent results in fiscal 1977. General Mills' sales grew 10.0 per cent and reached $2,909,404,000, nearly five times the $602,536,000 reported in fiscal 1967. During the same decade, earnings quadrupled, growing 16.4 per cent this past year to $117,034,000. Earnings per share, which grew 15.7 per cent in fiscal 1977 to $2.36, are three times greater than in fiscal 1967. Return on average shareholders' equity reached 17.1 per cent in fiscal 1977, a record high for the modern era of General Mills.

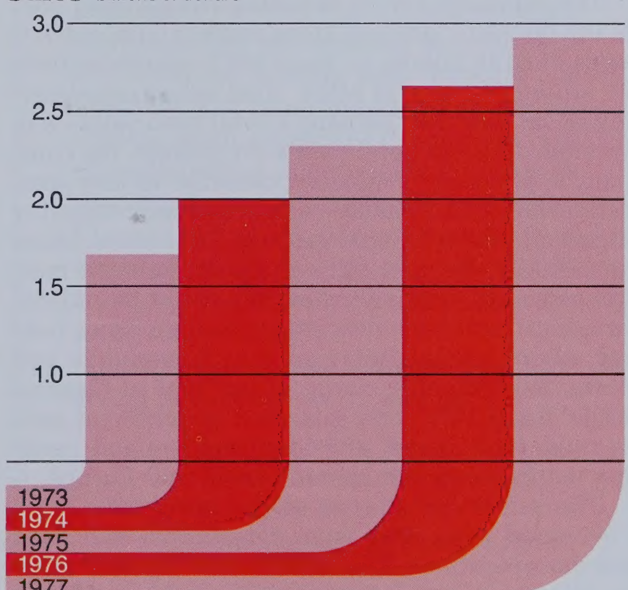
General Mills Strategy Emphasizes Internal Growth

The company's long-term strategy has emphasized growth from within existing major business areas. In fiscal 1967, General Mills competed in two major industry areas: foods and specialty chemicals, and was beginning to move into a third major area, crafts, games and toys. Today, 10 years later, the company has major involvement in five industries: foods; restaurants; crafts, games and toys; fashion and specialty retailing. Three of these industries are new. The company has signed a letter of intent to sell its specialty chemicals operations (see note 16 on page 36). These five industry areas offer good participation in consumer disposable income spending and are both compatible and manageable in terms of the company's capabilities. This is reflected in the company's five and 10-year growth statistics outlined on pages 40 and 41 in this report.

General Mills is now strongly positioned in each of the five major industries in which it competes. Long-range plans indicate that the company will be able to meet targeted growth goals over the next five years without having to expand into additional industry areas. General Mills may, however, enter one new industry before the end of the five-year planning period in order to contribute to the company's rate of growth into the 1980s.

The most recent five years have witnessed the greatest period of growth in General Mills' history. During this period, General Mills has invested more than $700,000,000 in developing its busi-

Sales *billions of dollars*



nesses, including the market value of shares issued for acquisitions. This includes $460,000,000 for new fixed assets, $119,000,000 for research and development and $116,000,000 for acquisitions within existing business areas. An additional $21,000,000 in acquisitions has been spent for probes into other industry areas such as travel and furniture.

The sources of the company's sales growth of $1,593,000,000 during the past five years are well balanced and indicate that our new investments are doing well. Approximately 25 per cent of this sales growth has come from new products and services developed internally, and another seven per cent has come from acquisitions. Approximately 18 per cent of the sales increase has resulted from expansion of restaurants and specialty retailing stores. Growth of established businesses accounts for the remaining 50 per cent.

New Products Account For 25% of Sales Growth

Foods continue as the company's most important business area. In fiscal 1977, foods accounted for 67.9 per cent of corporate sales and 64.5 per cent of total operating profits.

The company's most important single food area is the domestic grocery store market with current sales of $140 billion. In fiscal 1977, approximately $1 billion of General Mills' food sales, representing about half the company's total food sales, was through domestic food stores. At present, the company's products compete primarily in dry groceries and frozen foods — areas which account for about one-third of total grocery store sales. More specifically, General Mills competes in eight market segments with sales totaling about $4 billion: breakfast products, desserts, consumer flour, baking mixes, instant potatoes, frozen seafoods and pizza. Additionally, about 20 per cent of General Mills' fiscal 1977 food sales was snack items sold through food stores, non-food retailers and vending machines in the United States and Europe.

The remaining quarter of the company's fiscal 1977 food sales was from restaurants and food service operations. The rapidly growing market for meals eaten away from home currently represents about one of every three meals consumed in the United States, or approximately $70 billion in sales.

General Mills Well Balanced In Food Markets

General Mills is well balanced in terms of food market participation, enabling the company to take advantage of positive short-term trends while cushioning adverse changes. Product lines conform well to consumers' eating habits. An estimated 34 per cent of foods manufactured by General Mills' Consumer Foods Group is consumed at breakfast, 13 per cent at lunch, 38 per cent at dinner and 15 per cent as snacks. These products are also enjoyed by all types of consumers. General Mills participates in the direct service of meals as an operator of restaurants and is taking an increasingly active role as a supplier to the food service industry.

Most of General Mills' food products are No. 1 or No. 2 in sales in each market segment in which the company competes. This places General Mills in an excellent competitive position in terms of cost structure and profitability.

General Mills Competes In Large Consumer Markets

Non-food consumer products and services accounted for 28.0 per cent of corporate sales and 31.3 per cent of total operating profits in fiscal 1977. The company's strategy in this area is to pursue growth opportunities arising from gains in consumer disposable income, more leisure time and increasingly casual life styles. To this end, General Mills is active in the $7 billion worldwide retail market for crafts, games and toys and in the $43 billion domestic manufacturers' market for apparel and accessories. The company also participates in the $1 billion hobbycrafts retail market, the $1 billion international group tour and incentive travel market and more recently, the $8 billion furniture manufacturing industry and the $1 billion retail market for flexible wall coverings.

Specialty chemicals have been manufactured by General Mills for more than 30 years and have remained the only major industrial activity since the company adopted its consumer-oriented strategy in the early 1960s.

Offers for General Mills' chemical operations have been entertained from time to time in the past decade, but not until recently has a proposal been received that appeared mutually beneficial to the company's employees, shareholders, customers, suppliers and the communities in which worldwide operations are maintained. In April, 1977, General Mills' Board of Directors approved a letter of intent for the sale of the General Mills Chemicals, Inc., operations to Henkel KGaA, a privately held, technically oriented German company with sales in excess of $2.4 billion.

Tentative terms call for Henkel to pay General Mills approximately $74 million for the equity of the chemical operations. GMCI's intercorporate debt to General Mills of approximately $24 million will be replaced by a medium-term interest-bearing note. Assuming finalization of the transaction at these terms, General Mills will realize a gain of $5 million to $6 million in reporting fiscal 1978 results. Completion of the transaction is expected to occur in the first half of fiscal 1978.

In fiscal 1977, the chemical operations to be divested accounted for approximately four per cent of consolidated corporate sales, five per cent of net earnings and eight per cent of net assets. The earnings figure reflects an after-tax charge of $1,750,000 which was made in August, 1976, as a result of a decision to terminate xanthan gum joint ventures.

New Acquisition In Fashion Business Planned

As part of a strategy to balance apparel lines through increased sales of basic fashion components, agreement was reached in May, subject to normal audit and legal conditions, to acquire Ship 'n Shore, Inc., for approximately $35 million cash. Ship 'n Shore is the leading producer of ladies' shirts and blouses in the United States and has been in business for more than 60 years. Primary customers are major department stores and fine specialty shops. Since 1970, sales and earnings have tripled with sales reaching $63 million in calendar 1976.

General Mills' international operations constituted 16.2 per cent of total sales and 10.2 per cent of earnings in fiscal 1977, as described on page 30. International sales were $472,750,000, an increase of 9.0 per cent. Net earnings from international operations were $11,955,000, a decline of 20.3 per cent. Key contributory factors were $5,500,000 in losses from devaluation of the Mexican peso, unfavorable currency translations compared with a year earlier, relatively higher inflation abroad and problems associated with wage and price controls, particularly in France. These results are discussed in the review of major product groups elsewhere in this report.

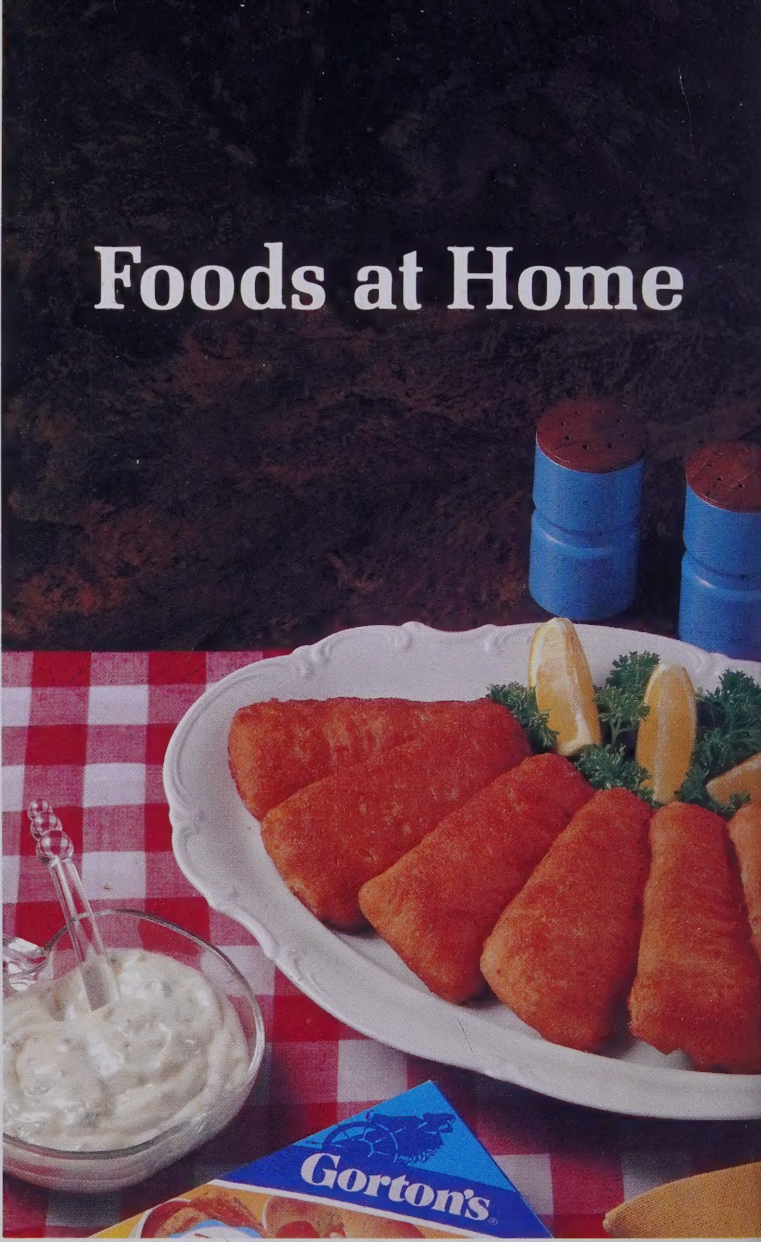
AUTOMATIC DIVIDEND REINVESTMENT PLAN

An increasing number of the more than 29,000 General Mills' shareholders are participants in the company's Automatic Dividend Reinvestment Plan. This plan is a convenient and economical way by which shareholders may increase their holdings in General Mills. Under the plan, dividends due participating shareholders are deposited directly with the First National Bank of Minneapolis which, as purchasing agent, combines the purchases of all participating shareholders to give each the economies of large-scale purchases. The cost of purchasing General Mills' common shares through the plan is less than the usual broker commission for small transactions.

Shareholders may obtain a brochure giving further details by writing:

General Mills, Inc.
Stock Transfer Department
P.O. Box 1113
Minneapolis, Minnesota 55440

Foods at Home



Breakfast and Snack Products

Sales of breakfast and snack products reached $740,300,000, an increase of 6.6 per cent versus the previous year. Operating profits were $102,000,000, up 4.7 per cent, reflecting continued aggressive advertising and promotional expenditures, particularly behind new products. Unfavorable foreign currency translation rates compared to the previous year, start-up expenses on new production capacities and tests of a new vending concept also affected profit growth.

Breakfast Cereals Attain Record High

Big G breakfast product unit sales were up 6.8 per cent, benefitting from increased marketing efforts. The company's ready-to-eat cereal brands reached an all-time volume high for the sixth year in a row. Nature Valley Granola Bars, in their second year, continued to exhibit strong growth and are now the largest brand in the growing new market segment of specialty portable foods. These combined efforts enabled Big G breakfast products to grow in market share in an industry which grew 3.3 per cent.

Consumer purchasing patterns shifted back to more traditional levels of presweetened cereal buying. All four Big G ready-to-eat children's brands — Trix, Lucky Charms, Cocoa Puffs and the "friendly" Monsters — achieved record volumes. Strong growth also was attained by Total and Kix brands, and Cheerios enjoyed its second highest volume year. Wheaties held even with year-ago figures and, in a major development, signed Olympic Decathlon Champion Bruce Jenner to a long-term contract as the new Wheaties spokesman.

In the new product area, Golden Grahams experienced excellent sales in the 70 per cent of the country in which it is currently distributed. Golden Grahams is produced by an entirely new processing system, and additional capacity to supply the remainder of the country will be on stream in the near future. The Nature Valley bar line was expanded during the year to include a peanut-flavored variety.

Crazy Cow, a unique new children's cereal that adds either chocolate or strawberry flavor to milk, was introduced to West Coast markets late in the year. Increases in production capacity made possible national shipment in June, 1977. Crispy Wheats 'n Raisins, Big G's first fortified ready-to-eat cereal product with raisins, was introduced to test markets in February.

Despite aggressive expansion of production facilities during the past four years, volume growth in established cereal products and the demands of active new product programs continued to stretch the company's increased cereal manufacturing capacity. As a result, additional capacity was authorized during the year.

In the domestic snack business, Tom's Foods finished the year well ahead of fiscal 1976 in both sales and earnings. Unit sales were particularly strong, especially for potato chips and candy items. Tom's convenience food store distribution program was expanded to 5,500 stores. DELIMATIC, a refreshment service providing snacks, soft drinks and coffee vending to mid-sized office locations, was tested in Atlanta, Los Angeles and Chicago. Capital spending increased with construction of a modern peanut shelling plant in Columbus, Ga., and with the addition of capacity at Tom's Corsicana, Texas, chip plant.

The Donruss Co. successfully entered the rapidly growing soft bubble gum market. New bubble gum competition from two large gum manufacturers was accompanied by heavy competitive advertising during the year. These forces increased the size of the bubble gum market but also slowed the rate of Donruss' overall sales growth.

GoodMark Adds Meat Snack Capacity

GoodMark Foods achieved excellent growth in sales and earnings. Outstanding snack sales volume, particularly for meat snacks, improved operating efficiencies and lower meat costs offset higher costs for packaging, labor and energy. Expansion of GoodMark's Garner, N. C., meat snack manufacturing facility was near completion by the end of the year.

The Mrs. Bumby's reformulated potato chip test market was discontinued in the United States because of a weakening market for stacked chips and the inability to achieve satisfactory return on anticipated investment. General Mills entered into a technical assistance and license agreement with House Food Industrial Co., Ltd., Osaka, Japan, granting House the rights to produce and market

a similar product in Japan. The company's remaining supermarket snack, Bugles, experienced volume growth on the strength of a new regionalized marketing program.

European Snacks Show Growth

General Mills' European snack business, which accounts for more than 40 per cent of the company's international sales, achieved another year of growth despite a difficult economic environment. Adverse factors included unfavorable currency translations affecting sales and profits, another poor potato crop, persistent inflation exceeding that in the United States and continuation of a variety of wage and price controls across Europe. The most difficult situation developed in France, where a price freeze in September was followed by a fixed percentage increase allowance plan for 1977 that fell short of cost increases. While results varied from country to country, continued success in introducing new products plus growth in established sales helped offset margin squeezes in most areas.

The Smiths-UK companies continued their innovative new product leadership in the British Isles snack market. A unique product, Square Crisps, led the list of new items and has achieved test market success to date. Among established products, Big D nuts in particular showed strong volume growth. Smiths-Holland had another record earnings year and held market leadership in chips and extruded snacks as did Smiths-Belgium. Zach in Austria successfully introduced a new line of extruded snacks to supplement its traditional rusk and pretzel business. Biscuiterie Nantaise successfully started a major new baking plant in Compiègne, France, with initial production concentrating on the market-leading French cookie, Choco-BN.

Mixes, Family Flour, Seafood and Other Consumer Foods

Betty Crocker desserts, family flour, seafoods and other consumer foods achieved sales of $720,700,000, an increase of 8.2 per cent. Operating profits of $42,700,000 declined 9.3 per cent from the previous year's record level as the company invested heavily during the year in long-term market share growth through increased spending for advertising and promotion of established lines and new products. Additionally, the company experienced increasing costs for packaging, labor, energy and selected raw materials. While a number of major commodities such as wheat declined in cost, higher raw material costs were especially pronounced for cocoa, raisins, nuts, egg whites, oils and seafood. Higher raw materials prices and other increases in production costs were reflected in the cost of sales of affected products and restrained earnings. These necessitated price increases for packaged desserts by the end of the fiscal 1977 year, ending two and a half years of price stability or declines.

Betty Crocker Volume Up More Than 15% in Two Years

Betty Crocker dessert products, which include layer and specialty cakes, frostings, brownies and other desserts, attained record unit sales, dollar sales and aggregate market share in the $700,000,000 annual retail dessert market. Since 1975, when high sugar prices inhibited consumer purchases, Betty Crocker volume has grown more than 15 per cent in two years of strong marketing effort. Market share has increased to more than 40 per cent. Unit sales of Betty Crocker layer cakes nearly matched the previous year's 20-year high, and all-time sales records were registered for ready-to-spread frostings, Snackin' Cake mixes and brownies. Stir 'n Frost, a specialty cake concept which provides cake mix, ready-to-spread frosting and a foil-lined pan for mixing and baking, all in one package, was introduced nationally early in the year; it met with outstanding consumer acceptance. In response to research indicating that many consumers bake large amounts of cookies, a four-flavor line of Big Batch Cookie Mix was introduced nationally in the summer of 1977.

Stir 'n Frost Introduced Nationally

Sales of Gold Medal 'Kitchen-tested' flour and regional flour brands, including LaPina and Red Band, enabled General Mills to increase its share of the family flour market for the fourth consecutive year and to attain its highest market share in history. These results were achieved despite resumption of a trend toward increased purchase of convenience foods which brought about a slight decline in volume in the $400,000,000 retail sales flour market. As a result of declining wheat costs, General Mills' flour prices were reduced further during 1977 to the lowest level since August, 1973.

Bisquick Sales Highest in History

Bisquick baking mix volume was the highest in the brand's 46-year history, setting records for the third consecutive year. Bisquick again increased its share of market, strengthening its leadership position. Originally introduced in 1932 and reintroduced as improved new Bisquick in the late 1960s, Bisquick serves as an example of the company's ability to effectively reposition and market traditionally mature products in contradiction of the classical product life cycle theory.

Betty Crocker specialty potatoes enjoyed exceptional growth in 1977 in response to increased advertising and promotional support as delivery volume increased 30 per cent. Largely as a result of Betty Crocker's sales increase, the specialty potato market grew 21 per cent at the same time the total dehydrated potato market declined two per cent because of lower fresh potato prices. Potato Buds mashed potato market share reached a new high despite new competition and weakness in the instant mashed potato segment.

Hamburger Helper and Tuna Helper enhanced their positions as the No. 1 and No. 2 brands among the $75,000,000 retail market for add-meat packaged dinner mixes although volume declined from prior year levels. A new variety of Tuna Helper, Country Dumplings Noodles 'n Tuna, was successfully introduced in February. Sales of Betty Crocker specialty casseroles, including Macaroni and Cheese, Noodles Almondine, Noodles Romanoff and Noodles Stroganoff, significantly increased as the result of repositioning and reintroductory efforts in central regions of the country. These efforts will be expanded into the remainder of the United States in the coming year.

Mug-O-Lunch, a line of hot instant lunch products, was introduced in Milwaukee and Portland test markets in March, 1977, in response to increased demand for quick, convenient lunch time foods.

Gorton's had excellent results again this year. The $500,000,000 frozen seafood industry grew substantially because of volume increases in batter fried products and higher prices caused by increased raw material costs. Gorton's success in developing new sources of supply and in marketing new products resulted in record sales, earnings and market share. Key contributory factors were the completion of the roll-out introduction of Gorton's new Batter Fried Fish Sticks and Fish Portions and the continuation of Gorton's brand franchise building program begun last year. Gorton's share of the canned clams market rose significantly as severe supply constraints due to natural causes and governmental restrictions forced some competitors to abandon the canned clam market.

Saluto Foods Expands Pizza Distribution

Saluto Foods Corporation, General Mills' manufacturer of high-quality frozen pizza acquired in March, 1976, reported excellent volume growth as new plant capacity in Montgomery, Ala., enabled Saluto to expand distribution to nearly 60 per cent of the country by the end of fiscal 1977. The success of the company's Deep-Dish pizza line established Saluto as a significant factor in the quality sector of the rapidly growing $400,000,000 frozen pizza market.

As a result of product reformulation to better suit consumer preference, Bac*Os' unit volume increased substantially over the previous year, and dollar sales reached an all-time high.

In Canada, package food volume showed excellent gains as both Grocery Products Division and Lancia-Bravo Division earnings reached record levels. Canadian government restrictions on profit and price controls remained in effect through the year. In Mexico, operating earnings from cookies, pasta and flour set a new record despite devaluation of the peso.

Foods away from Home

Commercial Foods and Ingredients

Commercial foods and ingredients sales increased less than one per cent to $274,300,000 because of lower bakery flour prices. Earnings, however, increased from $7,900,000 to $17,100,000, reflecting food service volume gains, improved results for food ingredients and the previous year's $7,000,000 pretax charge due to conversion of the company's Cedar Rapids commercial protein plant to a package foods production facility. Domestic bakery flour dollar sales dropped as wheat prices declined; however, an improved mix of product sales produced profits in line with the previous two record years. Utilization of internal milling capacities continued at levels well above the industry average.

Food service volume and profitability set new records as General Mills' flour-based mix and convenience food product sales continued to grow at a rate in excess of the total food service industry.

Gorton's Food Service Division maintained its market leadership but experienced a decline in unit volume due to supply constraints. The supply of raw seafood in general remained tight through the year, with temporary disruptions expected to continue as 200-mile fishing limits are implemented worldwide.

In November, General Mills signed a long-term leasing and licensing agreement with Central Soya Company giving that company exclusive rights to General Mills' patented steam-textured vegetable protein equipment, technology and products marketed to institutional customers and food processors. The company also signed an agreement for purchase by Dawson Mills of General Mills' patented vegetable protein spinning equipment, technology and frozen spun products marketed to institutional customers and food processors.

Restaurant Activities

The market for meals eaten away from home continues to grow rapidly, accounting for 35 per cent of total U.S. consumer expenditures for food in calendar 1976. At General Mills, restaurant operations accounted for 8.3 per cent of sales and 8.8 per cent of total operating profits in fiscal 1977. Sales were $240,900,000, up 33.3 per cent from $180,700,000 in 1976 and $33,300,000 five years ago. Operating profits for the year were $25,700,000, an increase of 8.9 per cent, reflecting higher seafood costs and severe winter weather which measurably reduced away-from-home eating and increased expenses in January and February.

Red Lobster Inns continued to be the company's primary expansion vehicle with 36 units opened during the year, bringing the total of company-owned restaurants to 210 units in 30 states. Dollar sales per store increased 6.0 per cent, reflecting higher menu prices as the average number of customers per store declined slightly from the previous year to a level even with two years ago. Red Lobster served 54,000,000 customers in fiscal 1977. During 1978, 30 new Red Lobster Inns are scheduled to be opened, primarily in market areas in the eastern half of the country.

York Steak House Systems Expand Restaurant Group

In April, General Mills acquired York Steak House Systems, Inc., a Columbus, Ohio-based chain of family steak restaurants. York Steak Houses are self-service, sit-down facilities located in 18 states, primarily in the Northeast, South and Midwest. Forty-eight units have been constructed as of the end of fiscal 1977, 10 within the past year. Most York Steak Houses are located in large shopping malls and add a new dimension of strength to General Mills' group of family restaurants. Approximately 20 new units will be opened in fiscal 1978.

Hannahan's, a restaurant concept featuring beef and seafood at reasonable prices, continued in test market at five locations in central Florida. Development of one additional modified Betty Crocker Pie Shop unit was initiated for testing in 1978.

E. H. Thompson Co., restaurant equipment and furnishings supply subsidiary, again reported strong financial performance. And in a continuing effort to ensure an adequate supply of shrimp and to minimize menu price increases, significant research and development efforts continued in Central America toward the goal of commercially raising shrimp for use in the company's restaurants.

General Mills is optimistic that the away-from-home-eating industry will continue to show strength. In 1977, the industry grew 10 per cent, which was lower than forecast as a result of the economic pause in late 1976 and an extremely severe winter which inhibited dining out. However, continuing economic improvement and favorable demographic trends suggest resumption of a more favorable long-term growth rate.

Crafts, Games and Toys


The Six Million Dollar Man
The Bionic Woma


Lionel Trains

Crafts, Games and Toys

General Mills' Craft, Game & Toy Group continued to report strong growth both in the United States and abroad in establishing its position as the industry leader in both sales and earnings on a worldwide basis. Fiscal 1977 sales rose 16.0 per cent to $403,200,000, and improved margins increased operating profits to $52,400,000, 26.0 per cent over the previous year.

Kenner Products had an exceptional year. The Six Million Dollar Man action figure toy exceeded the previous year's outstanding performance, and the Bionic Woman line and Stretch Armstrong stretchable toy made major growth contributions. In addition, Play-Doh modeling compound and the Tree House line strengthened the company's position in the preschool category. Promising new toys for Christmas, 1977, include the Play-Doh Fuzzy Pumper Barber and Beauty Shop, and Stretch Monster.

Parker Brothers' classic board games, including Monopoly, Clue and Sorry, continued to be highly successful. Whosit, Boggle, Happy Days and other all-family games were extremely well received by consumers. The Nerf product line continued to dominate the foam toy market. Extensive developmental work on a new product line, Riviton, began during the year and shows promise for the forthcoming toy season. Riviton is a new construction system that builds an endless variety of toys, models and environments. Also new is Gambler, a family board game.

Fundimensions had a more difficult year. Sales volume exceeded that of fiscal 1976. Earnings, however, were lower. Power Passers, Fundimensions' new racing set, came on strong in late 1976. Sales of Craft Master paint-by-number kits declined although continued strength in the MPC model kits and Lionel trains category compensated for much of this decline.

In the collection hobby area, H. E. Harris continued its leadership in stamp collecting merchandising. The company's wholesale and direct marketing divisions were especially successful, and the promising new foreign bank note collecting field was expanded to include approval sales. Bowers & Ruddy Galleries, a mail-order and auction rare coin dealer, performed below expectations under very unresponsive industry market conditions.

International operations demonstrated the vitality of their product lines and the importance of brand franchises by achieving excellent results in a period of modest growth, economic inflation, governmental price controls in several countries and currency instability.

The French Group had an exceptionally strong year, benefitting from television advertising, a relatively new phenomenon in the French toy industry. Miro games, Meccano toys, Raynal dolls and France Cartes playing cards all had substantial sales and earnings gains. In Germany, Parker continued to improve its game line market share, and Kenner's line of toys was successfully introduced. Clipper of Holland and Deska of Belgium also expanded their operations, primarily through distribution of additional products from General Mills' toy companies.

Although the economy of the United Kingdom remained unstable, Palitoy had strong sales of the Discovery Time preschool line, Pocketeers line of games, Action Man and promotional dolls. Denys Fisher's Bionic products and soft toys continued to be very successful.

Parker Canada had an outstanding year, adding a new line of toys to its current line. Government approval was granted to acquire Regal Toys in Canada, a doll and soft toy company, which will be included in General Mills' Canadian operations beginning with the coming year.

In Mexico, Lili-Ledy suffered from the effects of severe peso devaluation. Major earnings growth was eroded by currency conversion and translation losses. In the marketplace Lili-Ledy increased its sales dominance via product superiority, particularly with regard to dolls.

Toltoys in Australia again demonstrated market leadership as the entire product line gained strength and balance. Operations were expanded to New Zealand with the acquisition of Toltoys (New Zealand) Limited.

Characters from Star Wars Licensed by Toy Group

In anticipation of forthcoming opportunities, General Mills negotiated licenses for toys and games based on two popular television programs: Nancy Drew and the Hardy Boys, and the Man from Atlantis. In a major development, the company gained exclusive galaxy-wide toy and game rights to characters from the successful new movie, Star Wars.

Fashions, Furniture and Specialty Retailing

Izod Sportswear

Eddie Bauer Outdoor Apparel

Monet Jewelry

Pennsylvania House Furni

Fashions, Furniture and Specialty Retailing

General Mills' fashion, specialty retailing and furniture businesses reported sales of $411,500,000, an increase of 8.3 per cent from 1976. Operating profits were $38,400,000, an increase of 29.3 per cent, reflecting major market growth and improvements in operating efficiencies.

The fashion industry returned to more normal growth patterns with improvement in consumer spending interrupted only by an unusually cold winter. The Fashion Group outpaced the industry and attained significantly higher sales and earnings.

Monet Jewelers continued its outstanding growth rate, exhibiting strength in all the categories in which it competes. In addition to costume jewelry, Ciani, Monet's new entrant in precious jewelry, enjoyed a good reception from both retailers and consumers in its initial year. As a result, Monet is now positioned for substantial future growth in the better costume jewelry and fine jewelry markets.

Progress was also reported in men's wear. Lord Jeff benefitted from the shift to traditional informal clothing, with sales especially strong in men's sweaters. Sales of Izod emblem shirts also grew rapidly. Bookings for fall, 1977, are well ahead of the same period one year ago. Foot-Joy, the leading manufacturer of golf shoes, also had an excellent year.

Results in children's wear were excellent as sales of the Crystal Sunflowers line doubled, including Izod/j.g. Lacoste Alligator emblem shirts.

Results in women's apparel were mixed. Izod for Her, David Crystal's new line of updated sportswear for younger women, had an excellent reception in its initial season. Due to weak market conditions, the David Crystal dress operation was discontinued. Although the Picato line of women's sportswear received good acceptance following its introduction in the fall of 1974, it failed to generate profitability and was discontinued. Kimberly experienced disappointing sales as a result of softness in its traditional knit market. Product lines, however, have been strengthened, with two new lines, Kims and Avanzara, scheduled to be introduced this fall. Kims is an updated collection aimed at younger women. Avanzara is an updated sportswear collection.

General Mills' Specialty Retailing Group was substantially ahead of fiscal 1976 both in sales and earnings. Emphasis during 1977 was placed on building management teams in the company's subsidiaries, evaluating the market position of each operation and determining strategic directions. Implementation of plans to take advantage of market and operational opportunities will dominate fiscal 1978.

Eddie Bauer experienced significant increases in sales and earnings, opening its ninth store in suburban Seattle in October. New stores will be opened in Spokane, Edmonton and Calgary by fall, 1977. Three new LeeWards stores were opened in Cleveland, Chicago and Milwaukee as LeeWards' sales and earnings improved. LeeWards, now with 31 stores, competes in a growing crafts and hobbies market which annually exceeds one billion dollars in sales. Emphasis in fiscal 1978 will focus on upgrading product assortment and remodeling and relocating some existing stores. The Talbots' sales of women's wear also experienced good growth.

Wallpapers To Go Expands Company Role in "Do-It-Yourself" Market

In March, General Mills acquired Wallpapers To Go, operators of 11 self-service stores on the West Coast in a flexible wall coverings market with annual sales approaching a billion dollars. Designed for the do-it-yourself market, Wallpapers To Go stores have extensive and liberal customer service policies, providing assistance on how to hang wallpaper via in-store video tape presentations and live demonstrations. Expansion plans call for 14 new stores in California and in Portland, Phoenix, Dallas and Houston during the coming year.

General Mills' Travel Group demonstrated overall improvement. Olson-Travelworld reported profitable operations and a positive sales trend. Intraworld Incentives added new accounts in marketing incentive travel programs to corporations.

In the furniture area, General Interiors experienced disappointing results and underwent a change in management. The Pennsylvania House line initiated a new merchandising program, seeking to strengthen dealer affiliations by providing innovative marketing services. The unprofitable Brown Saltman Division was closed. As the new fiscal year began, new order bookings were up, having reached their highest level since October, 1974. Significantly improved results are anticipated for fiscal 1978.

Social Responsibility

Companies, like individuals, are members of the community. And like individuals, they are better citizens if they are concerned, involved and active. General Mills has long held this to be true, and places great value on its role as a corporate citizen in every community in which it is located.

Efforts are made to integrate each subsidiary's activities into the local community, to identify with appropriate local issues and to contribute to the economic and social development of the community involved.

General Mills believes that, as a business, its first priority is to provide quality products at a fair price. Providing goods and services is the company's function; guaranteeing their value is its ongoing commitment.

In addition, the company has sought out, and continues to seek, areas in which it can provide not only monetary support, but also guidance based on the expertise acquired through the successful operation of a large and growing business.

It was with this in mind that General Mills first became involved with Stevens Court, Inc., a central city rehabilitation project in Minneapolis. The restoration, in an area comprised predominantly of multi-family dwellings over 40 years old, continues to attract interest both in the Twin Cities and throughout the country. Representatives of organizations and companies have come to "tour" the project seeking to learn from this experience in which private industry has provided managerial guidance and funds to restore solid, attractive older apartment buildings for low and moderate income people. General Mills, which has a 65.5 per cent interest in Stevens Court, Inc., has invested approximately $3 million in the project.

General Mills Foundation Giving Increases 25%

In addition, General Mills continues financial support of various educational, civic, cultural, health and welfare programs. In fiscal 1977, $4,500,000 was transferred to the General Mills Foundation by the company and its subsidiaries. Grants by the Foundation totaled $3,272,000 during the year, an increase of 25 per cent over fiscal 1976. Direct contributions of $710,000 were also made by the corporation and its subsidiaries. The General Mills Search for Leadership in Family Living provided $110,000 in college scholarships.

Other activities included partial sponsorship of a new children's television series termed "revolutionary" in the current approach to programming for children. After its debut last fall, the program, *Rebop,* was hailed by critics as one of the most innovative and entertaining of its kind. The Parker, Kenner and Fundimensions divisions of the company's Fun Group provided a grant of $200,000 toward production. As a part of the continuing effort to promote and support quality entertainment for young people, the company launched the General Mills Radio Adventure Theater. The series, endorsed by the National Education Association, presents tales from classic works of literature, history and modern life.

This year, General Mills became the first food company to receive the Health Advancement Award of the National Kidney Foundation. The company makes available a number of products for people with kidney disease and others requiring low protein diets. Extensive contributions had also been made by General Mills to the *Mayo Clinic Renal Diet Cookbook.*

The concept of social responsibility is, of course,

maintained within the company as well as in the community.

The General Mills energy conservation program continued to show significant progress, effecting a $2 million savings in energy consumption for the six months ending December 31, 1976, compared to the same period of the 1972 pre-oil-embargo year. This was achieved despite one of the coldest fall seasons on record in most parts of the country. Although numerous industrial plants were shut down in the East and South this January because of natural gas shortages, General Mills, with adequate stand-by fuels, experienced no significant interruptions to production. The federal industrial energy conservation program has, among other things, established an energy conservation target of 12 per cent to be met by the food industry by 1980. General Mills' reports to government demonstrate conservation achievement already in excess of that target. In addition, General Mills carefully monitors controls on air, noise, water and solid waste pollution. The Minneapolis commuter van program achieved a 10 per cent increase in ridership over the year and now has 20 vans transporting 220 people to and from work.

General Mills continues to take an aggressive approach to affirmative action. At the end of fiscal 1977, 17 per cent of total U.S. based employees were minority group individuals and more than 51 per cent were women. In the past four years, the total number of people in "exempt" managerial or professional positions has increased by 39 per cent. In that same period, the number of minorities in that classification has increased by 122 per cent and the number of women has increased by 138 per cent.

Affirmative action concerns in the areas of employment of qualified handicapped individuals, Vietnam-Era veterans and older workers also received attention during fiscal 1977.

In 1977, the Consumer Center commissioned, completed and released its second report on the American family entitled, *Raising Children in a Changing Society.* The report focuses on families with children under 13 years of age and how parents are coping in this time of rapid social change.

Results of the study pointed out specific needs of families which will form the basis for activities in the coming year. The report itself has been widely reviewed by the press and is the subject of great interest to educators, social scientists, religious institutions and government.

Consumer Response, a segment of the Consumer Center, has developed a new technology which will now make it possible not only to reply to most consumer mail within 72 hours, but also to insure that all consumer comments are immediately available for action by management.

Nutrition Education Prominent During Year

Strong emphasis has been placed on the communication of factual data about the American diet to key thought leaders, mass media, health professionals and legislators who influence public opinion, policy and legislation regarding nutrition.

The Nutrition Department initiated publication of a nutrition newsletter, *Contemporary Nutrition,* distributed once a month, free of charge, to nearly 100,000 food and health professionals. *Capitol Commentaries,* a one-page monthly newsletter on current topics in food and nutrition of legislative significance, is modified from *Contemporary Nutrition* and mailed each month to federal and state legislators, thought leaders and key departments in the federal government.

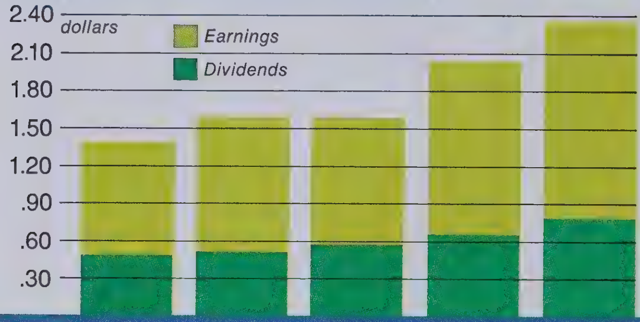
Recently, the Big G Division sponsored a nutrition symposium in New York City entitled *Communicating Nutrition . . . Helping the Consumer Understand.* For the symposium, the Nutrition Department analyzed more than 32 recent market research studies to compile *A Summary Report on U.S. Consumer Knowledge, Attitudes and Practices About Nutrition.* General Mills' Dr. Ivy Celender and G. Burton Brown participated in the symposium along with other experts in the field of nutrition from around the country. More than 135 health professionals and representatives of the media attended.

It is the policy of General Mills to encourage all of its employees to serve their communities with personal time and talent. General Mills men and women serve as members of city councils, school boards and county commissions as well as in roles of leadership in countless civic programs.

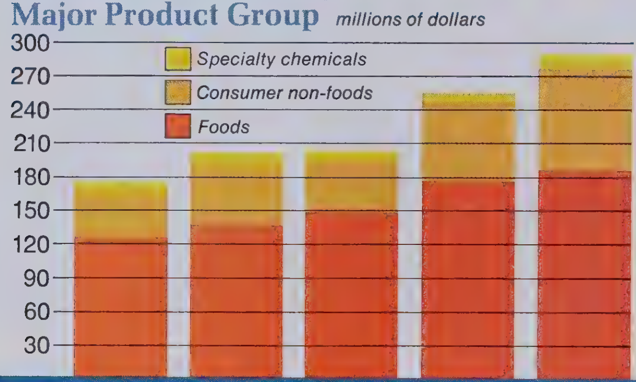
General Mills continues to act on the belief that, in today's world, commitments to society beyond philanthropy are required to discharge the debt that every corporation owes to the social order which has provided it with the freedom to serve and the opportunity to grow.

Finance, Investments, Management

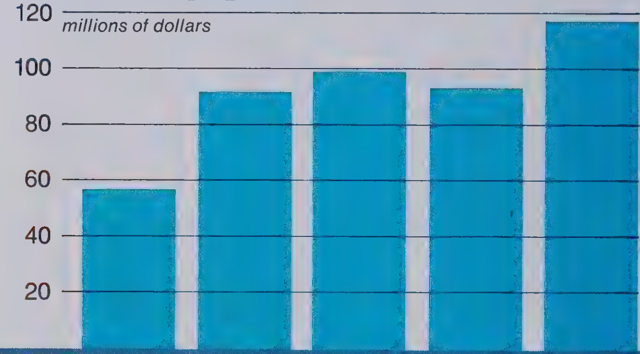
Earnings Per Share and Common Share Equivalent; Dividends Per Common Share



Operating Earnings by Major Product Group

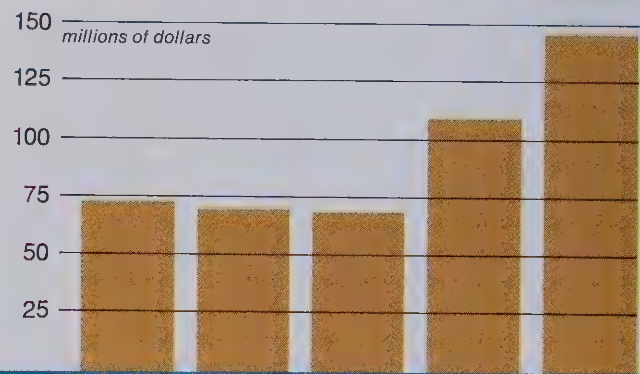


Gross Expenditures for Plant and Equipment

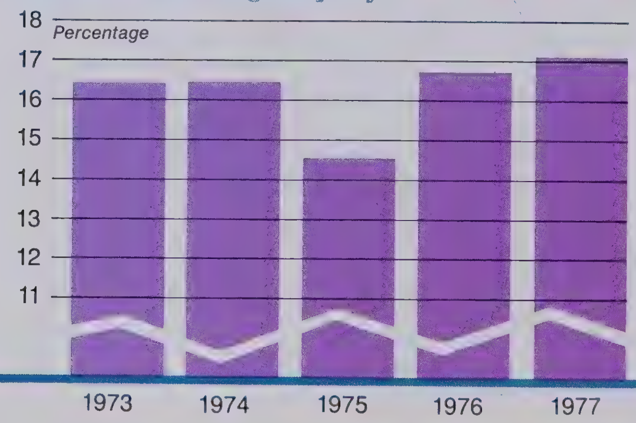


Research Expenditures

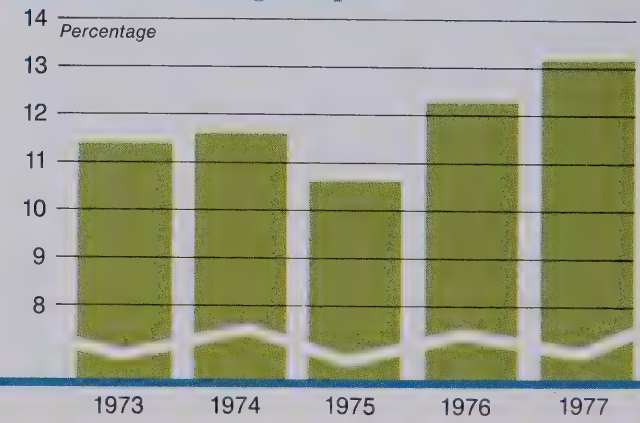
Advertising Media Expenditures



Return on Average Equity



Return on Average Capital



Advertising and Research Investments

Expenditures during the year for advertising media were $145,600,000, compared to $111,400,000 in 1976, an increase of 30.7 per cent. Approximately one-half of this $34,200,000 increase was due to rising media costs from fiscal 1976 to fiscal 1977. The remainder, together with increased expenditures for consumer trade promotion, reflects the company's continuing efforts to build sales volume and to improve the market share positions of General Mills' products and services.

Increased investment for research and development during 1977 further reflects the company's commitment to growth. Expenditures were $29,900,000 in 1977, an increase of 16.3 per cent over last year. The importance of investment in research and development is illustrated by the fact that 25 per cent of the company's 1977 sales is attributable to new products introduced within the past five years.

Finance and Capital Investments

General Mills' shareholders benefitted from two increases in the common stock dividend during the year. Effective with the payment of August 1, 1976, the Board of Directors voted to increase the quarterly rate two cents to 19 cents per share, and subsequently to 22 cents for the payment of May 1, 1977. Together, these increases reflect a 20 per cent increase to 79 cents in dividends paid per share, up from 66 cents in fiscal 1976. At 22 cents quarterly, the current dividend represents an annual rate of 88 cents.

In March, 1977, the company made open market purchases of 560,000 shares of its common stock for $16,350,000. The purpose of the program was to replace, on a share-for-share basis, those shares issued for the acquisition of York Steak House Systems.

Gross expenditures for new plant and equipment were a record $117,085,000, exceeding the prior year's outlay by 24 per cent. Food operations, excluding restaurant activities, accounted for 45 per cent of new capital expenditures with additional cereal capacity being the most important factor. The balance of new investments consisted of 27 per cent for restaurants, 23 per cent in consumer non-food areas and five per cent in specialty chemicals.

For the year, short-term borrowings required to meet seasonal working capital needs averaged $39,475,000. Domestic funding was effected through sale of commercial paper and international borrowing from foreign banks. Interest expense declined $2,661,000, or 9.1 per cent, primarily because of reduced borrowing levels and lower short-term interest rates. To ensure alternative financing, the company maintained domestic credit lines aggregating $75,000,000 with 12 banks.

Return on average shareholder equity improved to 17.1 per cent compared with 16.7 per cent in fiscal 1976. The growth in equity of $84,625,000, together with a small decline in corporate debt, reduced the year-end total debt to capital structure ratio to 29.8 per cent from 32.6 per cent in fiscal 1976. Return on total average capital employed in the business increased to 13.2 per cent from 12.3 per cent a year ago.

The $5,500,000 loss due to devaluations of the Mexican peso was the only material foreign exchange gain or loss incurred during the year. The company maintains a policy of financing foreign seasonal working capital requirements locally wherever practical.

Industrial Relations

The sound relationship which has existed for many years between General Mills and the 25 international and independent unions representing its employees in 74 U.S. and Canadian bargaining units continued during the fiscal year. Twenty-seven labor contracts were renegotiated during the period, with only one work stoppage, an 11-day strike by Kenner employees in Cincinnati.

Training of supervisors and managers in effective human relations, contract administration and employee job safety continued to receive heavy emphasis in both parent company and subsidiary operations. Intensive efforts to promote safe conditions and safe work practices resulted in an accident prevention record significantly better than those reported by the National Safety Council for general industry and for the specific industries in which General Mills competes.

Wage bargaining will be relatively heavy during the first half of fiscal 1978, with the expiration of two-year agreements at many of the company's key food plants. The Master Agreement with the American Federation of Grain Millers, covering fringe benefits and working conditions for some 3,900 company employees in 19 bargaining units, will be renegotiated in the latter part of the year.

Management

Managing for long-term success is inextricably tied to effective leadership. Since issuance of last year's annual report, a number of management changes have occurred to ensure a management team capable of sustaining the company's record of progress.

E. Robert Kinney, President since 1973 and Chief Executive Officer since June, 1976, was elected Chairman of the Board by the Board of Directors. Kinney succeeded James P. McFarland, who retired on February 1 upon reaching the normal retirement age of 65. McFarland continues to serve General Mills as a member of the Board of Directors.

H. Brewster Atwater, Jr., was elected President to succeed Kinney. Atwater has served as the company's Chief Operating Officer since June, 1976.

Donald F. Swanson, Senior Executive Vice President, Consumer Non-Foods, was elected Chief Financial Officer, replacing James A. Summer, who resigned from management and from the Board of Directors. Swanson has functioned in a broad range of senior operating and administrative roles during his 28-year career with the company. In his new position, Swanson has responsibility for seven staff areas: Control, Finance, Corporate Planning, Taxes, Corporate Growth, Engineering Policy and Real Estate. James L. Weaver, Assistant Treasurer since 1971, was elected Treasurer of the company and appointed a Vice President. He succeeded Henry H. Porter, Vice President-Finance and Treasurer, who resigned.

Robert K. Swanson was elected Executive Vice President in June, 1977, with responsibility for the company's Craft, Game & Toy, Fashion and Travel Groups. Among other assignments, Swanson has headed General Mills' European food operations and has served as Group Vice President for Consumer Foods. George B. Stephan was named Vice President-Control and Administration for Robert K. Swanson's areas of responsibility.

Within the Consumer Foods Group, Preston Townley was named a Group Vice President responsible for General Mills Europe, the Golden Valley Division and Marketing Services. Robert W. Hatch, Vice President, was appointed General Manager of the Big G Division, replacing Townley. Charles W. Gaillard was named Golden Valley Division General Manager and appointed a Vice President. Fletcher C. Waller, Jr., was named Vice President and Director of Marketing Services. Thomas J. Lee, Director of Purchasing, was appointed General Manager and Vice President of the Procurement Division, succeeding Darryl J. Woodland, who retired after more than 37 years of service. Patrick J. Smithwick was appointed a Vice President and Director of Trade Policy and Customer Relations, replacing Gordon W. Ryan, who retired after 36 years.

James H. Ruben was named Group Vice President with continuing responsibility for the Specialty Retailing Group and additional responsibility for furniture operations. Larry P. Kunz was named President of LeeWards Creative Crafts, and Wesley W. Harris was named President and General Manager of Eddie Bauer, Inc.

A. Thomas Vernon, President of Parker Brothers, Canada, was appointed a Vice President. James T. Boosales, formerly Director of Marketing at Parker Brothers, became President of Fundimensions. William D. Hawfield became General Manager of Bowers & Ruddy Galleries, Inc.

Norman Gatof was appointed President of Monet Jewelers. William O'Brien was named President of the Kimberly Division. Kimberly's founder, Jack Lazar, retired, as did Vincent dePaul Draddy, Chairman of the Board of David Crystal.

Among other management changes, James S. Fish, a General Mills veteran of 38 years, was elected Senior Vice President for Consumer Communications and Community Relations with responsibility for Public Relations, the Consumer Center and Social Action and Community Relations. Dean Belbas, Director of Financial Communications, and Dr. James L. Craig, Medical Director, were named Vice Presidents. David E. Kelby was appointed Director of Corporate Growth, effective September 1, 1977, replacing John T. Gerlach, Vice President, who resigned to enter private business.

At the James Ford Bell Technical Center, Dr. J. Robert Roach, Vice President, Director of Research and Development, Food Activities, retired in October after 33 years. Guy W. LaLone, Group Director, Engineering and Administrative Services, was appointed a Vice President.

In September, Milton Perlmutter was elected to General Mills' Board of Directors. Perlmutter is President of Supermarkets General Corporation, a position he has held since 1963.

Legal Matters

A discussion of legal matters is contained in Note 14 of Notes to Consolidated Financial Statements on page 35 of this report.

General Mills

Consolidated Results of Operations

GENERAL MILLS, INC., AND SUBSIDIARIES

	Fiscal Year Ended May 29, 1977 (52 Weeks)	Fiscal Year Ended May 30, 1976 (53 Weeks)
	(in thousands)	
SALES	$2,909,404	$2,644,952
COSTS AND EXPENSES:		
Costs of sales, exclusive of items shown below	1,786,210	1,654,169
Depreciation expense (Note 1-B)	46,206	45,006
Amortization expense (Note 1-D)	1,919	1,701
Interest expense	26,739	29,400
Contributions to employees' retirement plans (Note 9)	20,617	17,903
Profit sharing distribution (Note 10)	4,275	3,527
Selling, general and administrative expenses	794,846	692,985
TOTAL COSTS AND EXPENSES	2,680,812	2,444,691
EARNINGS BEFORE TAXES ON INCOME and Other Items shown below	228,592	200,261
TAXES ON INCOME (Note 11)	(112,119)	(99,964)
OTHER ITEMS:		
Add share of net earnings of 20-50% owned companies	1,481	1,094
Deduct minority interests in net earnings of consolidated subsidiaries	(920)	(853)
NET EARNINGS	$ 117,034	$ 100,538
EARNINGS PER COMMON SHARE AND COMMON SHARE EQUIVALENT (Note 1-I)	$ 2.36	$ 2.04
Average number of common shares and common share equivalents (Note 1-I)	49,572	49,203

Earnings Employed in the Business:

	Fiscal Year Ended May 29, 1977 (52 Weeks)	Fiscal Year Ended May 30, 1976 (53 Weeks)
	(in thousands)	
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 469,009	$ 401,011
ADD NET EARNINGS FOR THE YEAR	117,034	100,538
DEDUCT DIVIDENDS ON COMMON STOCK: $0.79 per share in 1977 and $0.66 per share in 1976	(39,083)	(32,391)
DEDUCT OTHER ADJUSTMENTS	—	(149)
RETAINED EARNINGS AT END OF YEAR (Note 6)	$ 546,960	$ 469,009

See accompanying notes to consolidated financial statements.

General Mills

Consolidated Balance Sheets

ASSETS

	May 29, 1977	May 30, 1976
	(in thousands)	
CURRENT ASSETS:		
Cash (Note 5)	$ 14,794	$ 4,478
Marketable securities (at cost, approximates market value)	7,521	77,351
Receivables:		
Customers	222,997	199,966
Miscellaneous	16,983	22,425
	239,980	222,391
Less allowance for possible losses	(8,373)	(6,428)
	231,607	215,963
Inventories (Notes 1-C and 4)	425,832	353,654
Prepaid expenses	33,640	21,351
TOTAL CURRENT ASSETS	713,394	672,797
OTHER ASSETS:		
Land, buildings and equipment (Note 1-B):		
Land	49,127	41,806
Buildings	291,882	256,570
Equipment	435,324	393,265
Construction in progress	52,751	47,621
	829,084	739,262
Less accumulated depreciation	(289,003)	(267,770)
	540,081	471,492
Miscellaneous assets:		
Investment in 20-50% owned companies (Note 1-A)	11,081	11,339
Other	22,473	23,071
	33,554	34,410
Intangible assets (Note 1-D):		
Excess of cost over net assets of acquired companies	150,416	138,802
Patents, copyrights and other intangibles	9,826	10,695
TOTAL OTHER ASSETS	733,877	655,399
TOTAL ASSETS	$1,447,271	$1,328,196

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	May 29, 1977	May 30, 1976
CURRENT LIABILITIES:	*(in thousands)*	
Notes payable (Note 5)	$ 27,725	$ 24,098
Current portion of long-term debt	3,435	4,405
Accounts payable and accrued expenses:		
Accounts payable — trade	234,147	194,622
Accounts payable — miscellaneous	43,779	46,671
Accrued payroll	36,090	29,933
Accrued interest	5,380	5,546
	319,396	276,772
Accrued taxes	61,380	69,045
Thrift accounts of officers and employees	3,269	3,363
TOTAL CURRENT LIABILITIES	415,205	377,683
OTHER LIABILITIES:		
Long-term debt, excluding current portion (Note 6)	276,136	281,763
Deferred Federal income taxes (Note 1-H)	14,834	11,231
Deferred compensation	7,529	6,442
Other liabilities and deferred credits	3,400	5,773
	301,899	305,209
TOTAL LIABILITIES	717,104	682,892
MINORITY INTERESTS	5,297	5,059
STOCKHOLDERS' EQUITY:		
Common stock (Notes 7 and 8)	192,475	172,897
Retained earnings (Note 6)	546,960	469,009
Less common stock in Treasury, at cost	(14,565)	(1,661)
TOTAL STOCKHOLDERS' EQUITY	724,870	640,245
COMMITMENTS, LITIGATION AND CLAIMS (Notes 2, 12, 13 and 14)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,447,271	$1,328,196

General Mills

Consolidated Changes in Financial Position

GENERAL MILLS, INC., AND SUBSIDIARIES

	Fiscal Year Ended			
	May 29, 1977 (52 Weeks)		May 30, 1976 (53 Weeks)	
WORKING CAPITAL PROVIDED BY:	*(in thousands)*			
Net earnings		$117,034		$100,538
Add non-cash items:				
Depreciation and amortization		48,125		46,707
Discontinued operations		(2,036)		6,494
Writeoffs of goodwill		256		2,476
Deferred Federal income taxes		5,134		(3,376)
Other		5,692		361
Working capital provided from operations		174,205		153,200
Proceeds from long-term debt issued		2,744		834
Common stock issued		19,261		7,500
Sale of stock upon exercise of options and profit sharing plans		3,763		3,788
Other sources		3,576		4,577
TOTAL WORKING CAPITAL PROVIDED		203,549		169,899
WORKING CAPITAL USED FOR:				
Gross additions to buildings and equipment	$117,085		$94,442	
Less proceeds from sales	(9,515)		(12,637)	
Net additions to buildings and equipment		107,570		81,805
Purchase price of businesses	22,423		10,789	
Less working capital acquired	(1,906)		(2,683)	
Balance		20,517		8,106
Consisting of — Fixed assets	11,616		5,166	
— Intangibles and miscellaneous assets	13,766		7,173	
— Long-term debt	(4,558)		(3,032)	
— Minority interest	522		(1,075)	
— Other	(829)		(126)	
Dividends		39,083		32,391
Reductions of long-term debt		13,236		25,376
Common stock repurchased		16,350		—
Other uses		3,718		3,946
TOTAL WORKING CAPITAL USED		200,474		151,624
NET INCREASE (DECREASE) IN WORKING CAPITAL		3,075		18,275
Consisting of — Cash and marketable securities	(59,514)		71,861	
— Receivables	15,644		2,382	
— Inventories	72,178		7,747	
— Payables	(37,522)		(64,149)	
— Other	12,289		434	
WORKING CAPITAL AT BEGINNING OF YEAR		295,114		276,839
WORKING CAPITAL AT END OF YEAR		$298,189		$295,114

See accompanying notes to consolidated financial statements.

General Mills

Notes to Consolidated Financial Statements

May 29, 1977, and May 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed in preparing the consolidated financial statements are summarized below. These policies conform to generally accepted accounting principles and have been consistently applied.

A: CONSOLIDATION

The consolidated financial statements include the following domestic and foreign operations: (1) parent company operations and 100% owned subsidiaries; (2) majority-owned subsidiaries; and (3) General Mills' investment in and share of net earnings or losses of 20-50% owned companies.

All significant intercompany items have been eliminated from the consolidated financial statements.

The fiscal years of foreign operations generally end in April.

B: LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

Land, buildings and equipment are stated substantially at cost.

Part of the cost of buildings and equipment is charged against earnings each year as depreciation expense. This amount is computed primarily by the straight-line method, which means that equal amounts of depreciation expense are charged against operations each year during the useful life of an item. For tax purposes, accelerated methods of depreciation are used which provide more depreciation expense in the early years than in the later years of the life of the item. The related tax effect for accelerated depreciation is reflected in "deferred federal income taxes."

The useful lives employed for computing depreciation on principal classes of buildings and equipment are:

Buildings	20-50 years
Machinery and equipment	5-25 years
Office furniture and equipment	5-10 years
Transportation equipment	3-12 years

General Mills' policy is to charge maintenance, repair and minor renewal expenses to earnings in the year incurred and to charge major improvements to buildings and equipment accounts. When major items are sold or retired, the accounts are relieved of cost and the related accumulated depreciation. Gains and losses on assets sold or retired are credited or charged to results of operations.

C: INVENTORIES

Grain and flour inventories are valued at market, and are adjusted to include unrealized gains and losses on open purchase and sale contracts.

Certain domestic inventories are valued at the lower of cost (determined by the LIFO method) or market. See Note 4 for the amount of inventories valued by the LIFO method.

Other inventories are generally stated at the lower of cost (determined by the FIFO method) or market.

D: AMORTIZATION OF INTANGIBLES

The costs of patents and copyrights are amortized evenly over their lives by charges against earnings. Most of these costs were incurred through purchases of businesses.

"Excess of cost over net assets of acquired companies" ("excess cost") is the difference between purchase prices and the values of assets of businesses acquired and accounted for under the purchase method of accounting. Any "excess cost" acquired after October, 1970, is amortized over not more than 40 years. Annually, the Audit Committee of the Board of Directors reviews these intangibles and reduces their balances if the values have diminished. At its meeting on May 23, 1977, the Board of Directors confirmed that the remaining amounts comprising the "excess cost" have continuing value. Because of low earnings and significant organizational changes in the company's travel venture, "excess cost" in the amount of $2,400,000 (both before and after taxes) was charged against earnings during the second quarter of fiscal 1976.

E: RESEARCH AND DEVELOPMENT

All expenditures for research and development are charged against earnings in the year incurred. The charges for fiscal 1977 and 1976 were $29,900,000 and $25,700,000, respectively.

F: RETIREMENT EXPENSE

The company has numerous retirement plans, as described in Note 9. The annual retirement expense for the plans includes both (1) the current year's normal cost and (2) prior-year costs. The prior-year costs include interest on unfunded balances, plus amortization of the unfunded balance over periods of up to 40 years.

The plans use different actuarial methods of estimating these costs. In addition, each plan's assumptions (such as turnover rates or future salary levels) may vary, according to the circumstances of the individual plan. Certain changes were made in these methods and assumptions in both fiscal 1977 and 1976. In addition, some benefit increases were made in both years, and varied pension fund investment results were experienced. All of these factors influenced the amount of retirement expense charged to operations in each year, thereby affecting comparability. See Note 9 for additional details.

G: FOREIGN EXCHANGE

In fiscal 1977, the company made minor changes to conform to new accounting rules for foreign exchange, as prescribed in Standard #8 of the Financial Accounting Standards Board. The differences between accounting principles followed by the company in 1977 and 1976 were not material.

Standard #8 requires all companies to use the same accounting principles for the translation of foreign-currency financial statements. In brief, foreign balance sheet accounts are translated into U.S. dollars at year-end exchange rates except for such accounts as inventories, land, buildings, equipment and capital stock, which are translated at the rates which were in effect when the items were acquired. Monthly income and expense amounts are translated at month-end rates, except that depreciation and cost of sales are translated at the same rate as the related assets. All gains and losses from translation procedures (and open forward exchange contracts) are credited or charged to income immediately, without deferral.

H: INCOME TAXES

Investment tax credits are accounted for by the "flow-through" method. Taxes on income are thus reduced by the amount of credit arising during the year.

Deferred income taxes result from timing differences between income for financial reporting purposes and tax purposes. These differences relate principally to depreciation, bad debts and discontinued operations.

The company accrues estimated income taxes payable on those earnings of foreign subsidiaries which are intended to be remitted to the parent company. See Note 11 for additional details.

I: EARNINGS PER SHARE

The weighted average number of common shares outstanding and "common share equivalents" are totaled in determining "earnings per common share and common share equivalent." The common share equivalents represent potentially dilutive common shares as follows: (1) shares of common stock (102,519 in 1977 and 93,000 in 1976) reserved for issuance upon exercise of outstanding stock options; and (2) treasury shares reserved for issuance under an incentive compensation plan (59,031 in 1977 and 64,398 in 1976).

J: REPLACEMENT COST INFORMATION

See page 42 for a discussion of unaudited replacement cost information.

2. ACQUISITIONS

The company made the following significant acquisitions during the past two fiscal years:

	Ownership	Date Acquired	Product or Major Product Group
Fiscal Year 1977			
York Steak House	100%	April, 1977	Restaurants
Wallpapers To Go	100%	March, 1977	Specialty Retailing
Fiscal Year 1976			
Saluto Foods Corp.	85%	March, 1976	Mixes, Family Flour, Seafoods & Other
Clipper Games	100%	August, 1975	Toys
Foot-Joy, Inc.	60%	July, 1975	Fashions

All of the above were accounted for by the "purchase" method. Following are the cash and common stock costs of these acquisitions, plus increased ownership in other partially-owned companies and additional payments under performance earnings agreements:

	Fiscal Year 1977	Fiscal Year 1976
Acquisitions		
— Cash	$ 410,000	$2,111,000
— Shares	668,339 (a)	322,534 (b)
Increased ownership in partially-owned companies and performance earnings payments (c)		
— Cash	$3,079,000	$1,041,000
— Shares	79,692	13,709

(a) General Mills purchased all the common stock of York Steak House in exchange for 558,362 shares of General Mills' stock. Likewise, the company purchased 100% of Wallpapers To Go shares in exchange for 109,977 shares of General Mills' common stock. Some minor acquisitions were purchased for cash. In addition, General Mills purchased Regal Toys of Canada for cash shortly after the close of the Canadian fiscal year (see Note 1-A).

(b) General Mills acquired 60% of the outstanding shares of Foot-Joy, Inc., in exchange for 140,680 shares of common stock and 85% of the outstanding shares of Saluto Foods Corp. for 181,854 shares of common stock. Clipper Games and all outstanding Red Lobster Restaurant franchises were purchased for cash.

(c) As of May 29, 1977, General Mills was contingently liable for up to $12,000,000 of additional performance earnings payments. The amount of payments will depend on actual earnings achieved.

Sales, costs and earnings of businesses accounted for as purchases are included in results of operations from the dates of acquisition. In each of fiscal 1977 and 1976, the impact on the company's sales from these acquisitions in the year of acquisition was less than 1% of consolidated sales. Related earnings were not material.

3. FOREIGN OPERATIONS

Included in General Mills' consolidated financial statements are amounts for foreign (non-U.S.) operations, as follows:

	1977	1976
	(in thousands)	
Sales	$472,750	$433,823
Net earnings	11,955	14,991
Total assets	323,292	289,876
Net assets	161,194	145,064

Substantially all investments in 20-50% owned companies included in the consolidated balance sheets and net earnings of 20-50% owned companies included in the consolidated results of operations are for foreign operations. Significant foreign operations are located primarily in Canada and western Europe. Foreign exchange gains and losses were not material in either 1977 or 1976, except for losses experienced as a result of fluctuations in the value of the Mexican peso. This is further described in Note 15.

4. INVENTORIES

Following is a comparison of year-end inventories:

	May 29, 1977	May 30, 1976
	(in thousands)	
Grain, family flour and bakery flour	$ 43,340	$ 38,798
Raw materials, work in process, finished goods and supplies as follows:		
Valued at LIFO	169,910	148,112
Valued primarily at FIFO	212,582	166,744
Total inventories	$425,832	$353,654

If the FIFO method of inventory accounting had been used in place of LIFO, inventories would have been $18,746,000 and $12,496,000 higher than reported at May 29, 1977, and May 30, 1976, respectively. See Note 1-C for a description of inventory valuation policies. During fiscal 1977, the LIFO method was adopted for the inventories of Foot-Joy, Inc. (a manufacturer of golf shoes). This had no material effect on earnings.

The LIFO method is used for domestic inventories only. Such inventories include major food products (exclusive of grain, family and bakery flour and restaurants), most game and toy inventories and certain chemicals inventories. Other domestic inventories on LIFO include LeeWards (home crafts), Monet (jewelry) and Foot-Joy (golf shoes).

The total amounts of opening and closing inventories as used in determining consolidated costs of sales are as follows (in thousands):

May 29, 1977	$425,832
May 30, 1976	353,654
May 25, 1975	345,907

5. SHORT-TERM BORROWINGS

The components of "notes payable" are as follows:

May 29, 1977		May 30, 1976			12-MONTH WEIGHTED AVERAGES		
						Average Interest Rates	
Balance	Interest Rate	Balance	Interest Rate		Outstanding In Fiscal '77	Fiscal '77	Fiscal '76
$20,896,000	11.3%	$22,887,000	11.2%	Banks (foreign)	$23,277,000	12.2%	13.1%
6,000,000	5.6%	—	—	Commercial paper (U.S.)	15,216,000	5.4%	6.6%
829,000	4.8%	1,211,000	5.9%	Miscellaneous	982,000	5.3%	6.4%
$27,725,000		$24,098,000		Total	$39,475,000		

The maximum amount of notes payable outstanding at any month-end during fiscal 1977 was $88,000,000 on September 30, 1976.

The company maintains unsecured domestic credit lines to support its commercial paper, and to ensure the availability of extra funds if needed. At May 29, 1977, the company had $75,000,000 of such domestic lines available, $71,000,000 of which was paid for by fees and $4,000,000 of which was supported by 10% compensating balances (20% if the credit lines are used). The amount of the credit lines and the cost thereof are generally negotiated each year.

6. LONG-TERM DEBT

	May 29, 1977	May 30, 1976
	(in thousands)	
7% sinking fund Eurodollar debentures, due November 1, 1980	$ 12,057	$ 12,119
Three 25-year 4¼% promissory notes of $10,000,000 each, due May 1, 1982, May 1, 1983, and May 1, 1984	30,000	30,000
8% sinking fund Eurodollar debentures, due March 1, 1986	15,112	16,040
4⅝% sinking fund debentures, due August 1, 1990	21,996	24,695
8⅞% sinking fund debentures, due October 15, 1995	83,028	82,993
8% sinking fund debentures, due February 15, 1999	98,593	98,528
Miscellaneous debt	18,785	21,793
	279,571	286,168
Less amounts due within one year	3,435	4,405
	$276,136	$281,763

The above amounts are net of unamortized bond discount ($2,933,000 in 1977 and $3,180,000 in 1976).

The sinking fund and principal payments due on long-term debt are $3,435,000, $7,774,000, $17,089,000, $19,031,000 and $25,288,000 in fiscal years ending in 1978, 1979, 1980, 1981 and 1982, respectively.

The terms of the promissory note agreements place restrictions on the payment of dividends, capital stock purchases and redemptions. At May 29, 1977, $350,388,000 of retained earnings was free of such restrictions.

7. CHANGES IN CAPITAL STOCK

The following table describes changes in capital stock from May 25, 1975, to May 29, 1977:

	Common Stock (70,000,000 shares authorized)			
	$0.75 Par Value		In Treasury	
(dollars in thousands)	Shares	Amount	Shares	Cost
Balance at May 25, 1975	48,899,332	$161,657	152,844	$ 2,179
Stock option and profit sharing plans	229,926	3,788	(22,618)	(321)
Shares issued — acquisitions	322,534	7,452	(13,709)	(197)
Balance at May 30, 1976	49,451,792	$172,897	116,517	$ 1,661
Stock option and profit sharing plans	117,828	3,763	(22,729)	(327)
Shares repurchased on open market	—	—	560,000	16,350
Shares issued — acquisitions	638,054	15,815	(109,977)	(3,119)
Balance at May 29, 1977	50,207,674	$192,475	543,811	$14,565

The shareholders also have authorized 5,000,000 shares of cumulative preference stock, no par value. None of these shares was outstanding during either fiscal 1977 or 1976. If the shares are issued, the Directors may specify a dividend rate, convertibility rights, liquidating value and voting rights at the time of issuance.

Some of the unissued shares of common stock are reserved for the following purposes:

	Number of Shares	
	May 29, 1977	May 30, 1976
Stock options outstanding	1,357,095	1,323,306
Stock options available for grant	554,550	714,300

8. STOCK OPTIONS

In September, 1975, the shareholders of General Mills, Inc., approved a new stock option plan. Under the plan, options for the purchase of 1,200,000 shares of the company's common stock may be granted to officers and key employees. The plan expires on August 31, 1980. The options may be granted subject to approval of the Compensation Committee of the Board of Directors, at a price of not less than 100% of fair market value on the date the option is granted. Options now outstanding include some granted under a previous stock option plan which has expired and under which no further options may be granted. Both plans provide for termination of options at either five or 10 years after date of grant, with certain exceptions due to death, disability or retirement. Information on stock options is shown in the following table.

	Shares	Average Per Share: Option Price	Average Per Share: Fair Market Value	Total Fair Market Value
Granted:				
1976	485,700	$30.98	$30.98	$15,047,000 (a)
1977	180,700	29.38	29.38	5,308,000 (a)
Became exercisable:				
1976	218,667	28.20	29.74	6,504,000 (b)
1977	276,205	29.78	29.15	8,051,000 (b)
Exercised:				
1976	229,926	16.47	29.46	6,774,000 (c)
1977	117,828	24.24	30.43	3,585,000 (c)
Expired:				
1976	19,766	28.88	28.88	571,000 (a)
1977	29,083	30.05	30.05	874,000 (a)
Outstanding at year-end:				
1976—to 355 officers and employees	1,323,306	28.49	28.49	37,704,000 (a)
1977—to 335 officers and employees	1,357,095	28.95	28.95	39,282,000 (a)

(a) At date of grant. (b) At date exercisable. (c) At date exercised.

9. RETIREMENT PLANS

The company and many of its subsidiaries have retirement plans covering most domestic and some foreign employees. Most plans provide for retirement at age 65 with benefits based on length of service and the employee's earnings. A few plans provide for benefits based on accumulated contributions and investment income.

In fiscal 1977, various plans improved their benefits and changed certain actuarial methods and assumptions. These changes increased 1977 expense by $500,000 over fiscal 1976. The expense for 1977 was also increased $1,300,000 by the effect of adverse retirement fund investment performance in prior years. The balance of the 1977 increase was due to normal participant experience.

By policy, the company funds with cash all retirement expense that it accrues. The company's policies for accruing costs are described in Note 1-F.

The company has also estimated the current value of benefits for participants in its plans, attributable to employees' services rendered to date. As of the latest available actuarial estimates (December 31, 1976, for most plans), the market values of the plans' assets and current value of participants' benefits were estimated to be:

	As of December 31: 1976	As of December 31: 1975
Current value of participants' benefits—vested	$217,000,000	$192,000,000
Current value of participants' benefits—total	$234,000,000	$210,000,000
Market value of assets in trust funds	$207,000,000	$171,000,000
Unfunded vested benefits	$ 17,000,000	$ 28,000,000

The increase in the market value of the trust fund assets was due to both improved investment performance in 1976 and the company contributions made during the calendar year.

The company has implemented most of the plan changes required by the "Employees Retirement Income Security Act of 1974" (ERISA). The changes had no material effects on retirement expense, as the company was already in substantial compliance with ERISA. The benefit and actuarial changes described above were made for reasons other than compliance with ERISA.

10. PROFIT-SHARING PLANS

General Mills and some subsidiaries have certain profit-sharing plans which function as incentives. These plans cover key individuals who have the greatest opportunity to contribute to current earnings and successful future operations.

The awards under these particular plans generally depend on profit performance in relation to pre-established goals, and are mostly available in cash shortly after year-end. These plans and payments are approved by the Board of Directors upon recommendation of the Compensation Committee. This committee consists of Directors who are not members of General Mills' management.

11. TAXES ON INCOME

The provision for income taxes is made up of the following:

	Fiscal Year 1977	Fiscal Year 1976
	(in thousands)	
Federal taxes	$ 90,873	$85,313
Foreign taxes	10,558	10,755
State and local taxes	10,612	10,298
Deferred taxes	5,134	(3,376)
U.S. investment tax credit	(5,058)	(3,026)
Total taxes on income	$112,119	$99,964

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The tax effects of these differences are as follows:

	Fiscal Year 1977	Fiscal Year 1976
	(in thousands)	
Depreciation	$ 2,699	$ 393
Deferred compensation	(34)	(139)
Bad debts	(662)	(121)
Discontinued operations	3,287	(2,997)
Other	(156)	(512)
Total deferred taxes	$ 5,134	$ (3,376)

The effective tax rate is different from the statutory U.S. Federal income tax rate of 48% for the following reasons:

	Fiscal Year 1977	Fiscal Year 1976
U.S. statutory rate	48.0%	48.0%
State and local income taxes, net of Federal tax benefits	2.4	2.7
Investment tax credit	(2.2)	(1.5)
Other	.8	.7
Effective income tax rate	49.0%	49.9%

Unremitted earnings of foreign operations amounting to $61,000,000 are expected by management to be permanently reinvested. Accordingly, no provision has been made for additional foreign or U.S. taxes which would be payable if such earnings were to be remitted to the parent company as dividends. Provision has been made for additional foreign and U.S. taxes on undistributed earnings in excess of this amount. These additional taxes were not material in either fiscal 1976 or 1977.

12. LEASE COMMITMENTS

Rent expense was $22,040,000 in fiscal 1977 and $19,112,000 in 1976. Non-cancellable lease commitments for the next five years are: $17,000,000 in 1978; $15,000,000 in 1979; $12,000,000 in 1980; $10,000,000 in 1981; and $9,000,000 in 1982. As of May 29, 1977, the total noncancellable commitment for all future years (including the five years just listed) is approximately $120,000,000. 94% of the commitments are for real estate. Some leases require payment of property taxes, insurance and maintenance costs in addition to the rental payments. The company and its subsidiaries do not have significant capital leases.

13. OTHER COMMITMENTS

At May 29, 1977, authorized but unexpended appropriations for property additions and improvements were $66,000,000.

In addition, there are options outstanding to purchase the remaining minority interests of some partially-owned companies. The options could have a maximum cost to General Mills of up to $61,000,000, the major portion of which could be payable with shares of common stock. In general, the option contracts provide for payments which are dependent upon actual earnings performance and evaluation of related return on investment through the exercise date. The main option periods run from 1979 to 1986.

14. LITIGATION AND CLAIMS

In management's opinion, all claims or litigation pending at May 29, 1977, which could have a significant effect on the consolidated financial position of General Mills, Inc., and its subsidiaries have been provided for in the accounts. The FTC complaint described below is discussed because of the significance of the company's cereals business.

In 1972, the Federal Trade Commission (FTC) issued a complaint against General Mills, Kellogg Co., General Foods Corporation and the Quaker Oats Company, alleging that the four companies share an illegal monopoly of the ready-to-eat cereal industry. The FTC seeks relief in the form of divestiture of certain cereal-producing assets, licensing of cereal brands and prohibitions of certain practices and future acquisitions in the cereal industry. The four companies have denied the allegations. An FTC Administrative Law Judge started hearing testimony in April, 1976.

The hearing is expected to be completed within another year. The judge's findings will then be subject to review by the FTC. Any adverse decision by the FTC will then be subject to further review in U.S. Federal courts. The company expects the matter to take several years and involve costly litigation. In the opinion of General Mills' General Counsel, the company's ready-to-eat cereal activities do not violate existing anti-trust laws. The company will continue to contest the complaint vigorously.

15. QUARTERLY DATA (unaudited)

Summarized quarterly data (in millions, except for per share and market price amounts) for fiscal 1977 and 1976 are as follows:

	Three Months Ended			
Fiscal 1977	Aug.	Nov.	Feb.	May
Sales	$720	828	667	694
Gross profit (a)	$276	325	258	264
Net earnings	$ 32	40	24	21
Earnings per share	$ .65	.80	.48	.43
Dividends per share	$ .19	.19	.19	.22
Market price of common stock:				
High	$ 34⅛	35⅜	35¼	29¾
Low	$ 26⅝	29⅛	29	26½
Fiscal 1976 (b)				
Sales	$625	763	606	651
Gross profit (a)	$230	290	224	247
Net earnings	$ 25	34	21	20
Earnings per share	$ .50	.70	.43	.41
Dividends per share	$ .15	.17	.17	.17
Market price of common stock:				
High	$ 28¾	30	34⅛	31⅞
Low	$ 23⅜	24¾	26⅝	26⅝

(a) Before charges for depreciation and retirement costs.

(b) Fiscal 1976 quarterly data were not subjected to limited review procedures by the company's independent certified public accountants.

During the first quarter of fiscal 1977, the company terminated its xanthan gum projects, resulting in an after-tax charge of $1,750,000. During 1977, the company's Mexican operations were affected by the floating of the peso. This caused an after-tax charge of $7,000,000 in the second quarter, partly offset by credits of $1,000,000 in the third quarter and $500,000 in the fourth.

During fiscal 1976's second quarter, the company sold its Silna division and wrote off a portion of the goodwill in its travel venture, for a combined after-tax charge of $4,500,000. This was partly offset by an after-tax credit of $2,200,000 in the same quarter from restructuring German toy operations. The company also charged off $3,500,000 after-tax (principally in the fourth quarter of fiscal 1976) for converting a protein plant to a package food operation.

16. SALE OF CHEMICALS OPERATION

On May 4, 1977, General Mills signed a letter of intent to sell its specialty chemicals operations to Henkel KGaA, a West German company. General Mills expects to sign a definitive contract soon and complete the sale during the first half of fiscal 1978. The closing of the sale will be dependent upon satisfactory fulfillment of audit, legal and certain contractual requirements.

The sale of the equity in the chemicals operations will result in proceeds of about $74 million, in cash, and is expected to produce a gain, net of tax, of $5 million to $6 million in fiscal 1978. In addition, the chemicals operation will replace its intercorporate debt to General Mills (about $24 million — amount to be determined on the closing date) with a medium-term interest-bearing note.

The chemicals operations being sold are defined differently from the product line data shown on page 39. For fiscal 1977, the operations being sold account for approximately 4% of consolidated sales, 5% of net earnings and 8% of consolidated net assets.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1700 IDS CENTER
MINNEAPOLIS, MINNESOTA 55402

The Stockholders and the Board of Directors
General Mills, Inc.:

We have examined the consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 29, 1977 and May 30, 1976 and the related consolidated statements of results of operations, earnings employed in the business and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of General Mills, Inc. and subsidiaries at May 29, 1977 and May 30, 1976 and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

July 22, 1977

Management's Discussion and Analysis of Earnings

FISCAL YEAR 1977

Sales. Sales increased 10.0 per cent. Strong gains over fiscal 1976 sales were attained by each of General Mills' three major business areas: 9.0 per cent for foods, 12.0 per cent for consumer non-foods and 14.1 per cent for specialty chemicals. As in the previous year, inflation played only a small role; more than three-quarters of the gain resulted from volume increases. Fiscal 1977 was 52 weeks in duration, one week less than 53-week fiscal 1976.

Costs and Expenses. Costs and expenses increased $236,121,000, or 9.7 per cent, over the prior year. This largely reflects the net effect of the following factors: 1.) growth in volume of products and services with attendant increases in raw materials and other direct expenses, partially offset by lower average purchase prices for a number of key commodities such as wheat and sugar; 2.) substantial increases in sales promotion expenditures, including a $34,200,000 rise in media costs, which was a key factor in the overall increase of $101,861,000, or 14.7 per cent, in selling, general and administrative expenses. Contribution to employees' retirement funds increased $2,714,000, or 15.2 per cent.

Analysis of Earnings. Net earnings reached $117,034,000, an increase of 16.4 per cent, as compared with the prior year. In addition to the above items, earnings were affected by two factors discussed in Note 15 of Notes to Consolidated Financial Statements, which reduced net earnings by $7,250,000. A review of operating profit trends by product lines for the most recent five years appears on the opposite page. Compared with the prior year, total operating profits increased 14.1 per cent with gains reported by each of General Mills' three major business areas: 6.5 per cent for foods, 27.3 per cent for consumer non-foods and 68.5 per cent for specialty chemicals.

FISCAL YEAR 1976

Sales. Sales grew 14.6 per cent. Strong gains over fiscal 1975 sales were attained by each major business area: 11.0 per cent for foods, 24.8 per cent for consumer non-foods and 13.4 per cent for specialty chemicals. About three-quarters of the gain resulted from volume increases, including virtually all of the gain in the second half, which grew at a rate of 15.7 per cent.

Costs and Expenses. Costs and expenses increased $281,424,000, or 13.0 per cent, over the prior year. This largely reflects: 1.) growth in volume of products and services with attendant increases in raw materials and other direct expenses, partially offset by lower average purchase prices for a number of key commodities such as wheat, sugar and shortening; 2.) substantial increases in sales promotion expenditures, including a $40,900,000 increase in media costs, which was a key factor in the overall increase of $153,853,000, or 28.5 per cent, in selling, general and administrative expenses. Continued success of the company's efforts to improve working capital turnover and lower short-term interest rates led to a decline in interest expense of $6,819,000, or 18.8 per cent. Contribution to employees' retirement funds increased $6,438,000, or 56.2 per cent.

Analysis of Earnings. Net earnings reached $100,538,000, an increase of 31.9 per cent, as compared with the prior year. In addition to the above factors, earnings were affected by the unusual transactions discussed in Note 15 of Notes to Consolidated Financial Statements, which reduced net earnings by $5,800,000. Compared with the prior year, total operating profits increased 25.2 per cent with gains reported by each major business area: 19.1 per cent for foods, 46.7 per cent for consumer non-foods and 5.8 per cent for specialty chemicals.

General Mills

Sales BY MAJOR PRODUCT GROUP *(in millions)*

Fiscal Year

	1977		1976		1975		1974		1973	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Breakfast and Snack Items	$ 740.3	25.4	$ 694.2	26.3	$ 621.4	26.9	$ 522.8	26.1	$ 458.4	27.6
Mixes, Family Flour, Seafoods and Other	720.7	24.8	665.8	25.2	622.7	27.0	572.5	28.6	483.0	29.0
Commercial Foods and Ingredients	274.3	9.4	273.0	10.3	276.7	12.0	249.1	12.5	201.2	12.1
Restaurant Activities	240.9	8.3	180.7	6.8	113.6	4.9	77.8	3.9	54.6	3.3
FOODS	1,976.2	67.9	1,813.7	68.6	1,634.4	70.8	1,422.2	71.1	1,197.2	72.0
Crafts, Games and Toys	403.2	13.9	347.6	13.1	302.2	13.1	250.7	12.5	181.7	10.9
Fashions, Furniture and Specialty Retailing	411.5	14.1	379.8	14.4	280.7	12.1	247.2	12.4	222.6	13.4
CONSUMER NON-FOODS	814.7	28.0	727.4	27.5	582.9	25.2	497.9	24.9	404.3	24.3
SPECIALTY CHEMICALS	118.5	4.1	103.9	3.9	91.6	4.0	80.0	4.0	60.5	3.7
TOTAL SALES	$2,909.4	100.0	$2,645.0	100.0	$2,308.9	100.0	$2,000.1	100.0	$1,662.0	100.0

Earnings BY MAJOR PRODUCT GROUP *(in millions)*

Fiscal Year

	1977		1976		1975		1974		1973	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Breakfast and Snack Items	$102.0	35.1	$ 97.4	38.3	$ 80.1	39.4	$ 72.1	36.0	$ 68.2	39.0
Mixes, Family Flour, Seafoods and Other	42.7	14.7	47.1	18.4	45.4	22.3	44.2	22.1	42.7	24.5
Commercial Foods and Ingredients	17.1	5.9	7.9	3.1	7.2	3.6	10.0	5.0	5.2	3.0
Restaurant Activities	25.7	8.8	23.6	9.3	15.1	7.4	8.2	4.1	6.5	3.7
FOODS	187.5	64.5	176.0	69.1	147.8	72.7	134.5	67.2	122.6	70.2
Crafts, Games and Toys	52.4	18.1	41.6	16.3	30.6	15.1	26.8	13.4	14.0	8.0
Fashions, Furniture and Specialty Retailing	38.4	13.2	29.7	11.7	18.0	8.8	29.9	14.9	30.8	17.6
CONSUMER NON-FOODS	90.8	31.3	71.3	28.0	48.6	23.9	56.7	28.3	44.8	25.6
SPECIALTY CHEMICALS	12.3	4.2	7.3	2.9	6.9	3.4	8.9	4.5	7.3	4.2
TOTAL OPERATING PROFITS	290.6	100.0	254.6	100.0	203.3	100.0	200.1	100.0	174.7	100.0
Unallocated corporate expenses, exclusive of items shown below	(31.0)		(21.4)		(18.4)		(17.4)		(16.9)	
Interest expense	(26.7)		(29.4)		(36.2)		(28.5)		(18.3)	
Profit-sharing distribution	(4.3)		(3.5)		(3.1)		(4.0)		(4.3)	
TOTAL EARNINGS BEFORE TAXES	$228.6		$200.3		$145.6		$150.2		$135.2	

Operating profits reported above indicate the relative contributions of General Mills' diversified operations to total earnings. They are not necessarily comparable to similar data from other companies since accounting practices may vary.

Variations between the sales and operating profits shown in these tables and similar amounts published in preceding reports are due principally to restatements and minor adjustments in the classification of certain items.

General Mills

Ten Years in Review

GENERAL MILLS, INC., AND SUBSIDIARIE

Before Restatements (as reported)

	May 29, 1977	May 30, 1976	May 25, 1
Sales	$ 2,909.4	2,645.0	2,308
Earnings before extraordinary items	$ 117.0	100.5	76
Net earnings	$ 117.0	100.5	76
Dividends—common stock	$ 39.1	32.4	27
—preference stock	$ —	—	-
Earnings before extraordinary items and after dividends	$ 77.9	68.1	48
Per common share and common share equivalent:*			
Earnings before extraordinary items	$ 2.36	2.04	1.
Net earnings	$ 2.36	2.04	1.
Dividends per share*	$ .79	.66	.
Common shares outstanding at year-end*	49,664	49,335	48,7
Preference shares outstanding at year-end	—	—	-
Number of stockholders	29,300	29,200	28,8
Market price range—common stock*	$35⅜-26½	34⅛-23⅜	27¾-14
—preference stock	$ —	—	-
Total assets	$ 1,447	1,328	1,2

*Adjusted for two-for-one split in October, 1975.

Summary of Earnings—Five Years

dollar amounts, except per share, in millions

*Restated**

	Fiscal Year				
	1977	1976	1975	1974	1973
Sales	$2,909.4	2,645.0	2,308.9	2,000.1	1,662.0
Interest expense	$ 26.7	29.4	36.2	28.5	18.3
Income taxes	$ 112.1	100.0	70.6	76.0	69.0
Net earnings	$ 117.0	100.5	76.2	75.1	66.1
Earnings per sales dollar	4.0¢	3.8¢	3.3¢	3.8¢	4.0¢
Per common share and common share equivalent:**					
Net earnings	$ 2.36	2.04	1.59	1.59	1.41
Taxes (income, payroll, property, etc.)	$ 3.43	3.02	2.35	2.36	2.07

*Includes the following: 1974 Talbots, Inc., pooling, and change in sales definition; 1973 Kimberly Knitwear, Inc., pooling.

**Per share data are based on the average common shares and common share equivalents outstanding during each year. Data for 1973-1975 have been restated for the two-for-one common stock split in October, 1975.

Data should be read in conjunction with the financial statements on pages 23-37.

dollar amounts, except per share, in millions *shares outstanding in thousands*

Fiscal Year Ended

y 26, 1974	May 27, 1973	May 28, 1972	May 30, 1971	May 31, 1970	May 25, 1969	May 26, 1968
2,000.1	1,593.2	1,316.3	1,120.1	1,021.7	885.2	668.9
75.1	65.6	52.2	43.9	40.6	36.2	31.3
75.1	65.6	45.4	43.9	27.1	37.5	31.3
24.4	20.9	19.1	17.3	16.4	13.9	12.3
—	2.1	2.3	2.5	2.6	2.7	2.8
50.7	42.6	30.8	24.1	21.6	19.6	16.2
1.59	1.40	1.17	.99	.94	.89	.83
1.59	1.40	1.02	.99	.63	.92	.83
.53	.50	.48	.45	.44	.40	.39⅜
47,130	42,530	40,396	39,220	37,904	35,544	32,048
—	1,145	1,250	1,426	1,487	1,560	1,573
28,500	29,600	31,000	32,600	32,900	32,900	30,000
3¼-23¼	33¾-24¼	26⅛-16¾	18⅛-12⅜	19⅝-11¾	21¾-15¾	21⅜-15
107¼-85	113-82¾	88-57	61½-42	65½-41	71½-54½	71¼-55⅝
1,117	906	818	750	666	622	505

Other Statistics

dollars in millions

*Restated**

	Fiscal Year				
	1977	1976	1975	1974	1973
Gross expenditures for plant and equipment	$ 117.1	94.4	99.8	92.2	57.5
Working capital provided from operations	$ 174.2	153.2	123.9	116.2	112.2
Research expenditures	$ 29.9	25.7	22.9	21.6	19.0
Advertising media expenditures	$ 145.6	111.4	70.5	71.5	74.3
Depreciation and amortization	$ 48.1	46.7	41.8	36.3	34.8
Wages, salaries and employee benefits	$ 541.2	476.1	400.4	350.1	304.5
Taxes (non-income)	$ 57.9	48.8	41.9	35.4	28.5
Repairs and maintenance	$ 58.0	53.7	44.9	39.0	33.5
Number of employees	61,797	51,778	47,969	46,398	40,775

*Includes the following: 1974 Talbots, Inc., pooling, and change in sales definition; 1973 Kimberly Knitwear, Inc., pooling.

In the opinion of management, the Financial Statements in this Annual Report to the Stockholders include all significant financial statement data included in the Annual Report filed with the Securities and Exchange Commission on Form 10-K. Shareholders may request a free copy of the Form 10-K report by writing to the Secretary, General Mills, Inc., P.O. Box 1113, Minneapolis, Minn. 55440.

Replacement Cost Information *(Unaudited)*

The Securities and Exchange Commission now requires that annual 10-K reports contain certain information on a replacement cost basis for fixed assets, inventories, cost of sales and depreciation expenses. Stockholders wishing to obtain such information should request a copy of Form 10-K in accordance with instructions on page 41.

General Mills is acutely aware of the impact of inflation on its operations. However, the company believes its operating philosophies and practices have enabled it (and will continue to enable it) to combat effectively the effects of inflation. Further, the company feels that replacement cost information by itself does not recognize the customary relationships between cost and productivity changes and selling price changes. By effective cost controls on purchasing, manufacturing and other activities, the company has maintained profit margins at levels sufficient to distribute quality products at competitive prices and to earn reasonable returns on investments made over extended prior periods in addition to paying regular and increasing quarterly dividends. Barring unusual economic or regulatory conditions, the company expects to maintain reasonable profit margins and returns on such investments in the future.

Inflation affects General Mills' balance sheet and operating results primarily in the working capital and fixed asset areas. Inflation's effect on cost of sales has been minimized by the conversion to LIFO valuation methods in 1975 for a substantial portion of domestic inventories. While inflation's *annual* impact on replacement of existing production capacity is minimal because of the long time span over which replacements occur, its long-run result is that accumulated depreciation is insufficient to replace fully depreciated production capacity. Moreover capital requirements for growth through new products and/or new systems are of significant importance to General Mills. The increasing costs for growth projects make more difficult the attainment of satisfactory returns on investment.

The SEC has correctly emphasized that there are substantial unresolved theoretical problems with replacement cost concepts. Further, investors should understand that because of different estimating techniques and the many different specific factual circumstances involved, the data are subject to judgmental factors and may not be comparable among companies, especially companies which purchased their assets at different times.

Transfer Agencies

COMMON STOCK:

Citibank, N.A., 111 Wall Street, New York, N.Y. 10015

Office of the Company, P.O. Box 1113, Minneapolis, Minn. 55440

Registrars

COMMON STOCK:

Citibank, N.A., 111 Wall Street, New York, N.Y. 10015

Northwestern National Bank of Minneapolis, Seventh and Marquette, Minneapolis, Minn. 55480

Stock Exchange Symbol: GIS

Markets

New York Stock Exchange

Midwest Stock Exchange

General Mills

Corporate Officers

E. Robert Kinney, *Chairman of Board and Chief Executive Officer*

H. Brewster Atwater, Jr., *President and Chief Operating Officer*

Donald F. Swanson, *Senior Executive Vice President and Chief Financial Officer*

Paul L. Parker, *Executive Vice President, Chief Administrative and Government Relations Officer*

F. Caleb Blodgett, *Executive Vice President, Consumer Foods*

J. Wilbur Feighner, *Executive Vice President, Specialty Foods*

Robert K. Swanson, *Executive Vice President, Crafts, Games, Toys, Fashion and Travel**

Eugene E. Woolley, *Executive Vice President, Restaurants, Specialty Retailing, Furniture, Chemicals and O-CEL-O*

James S. Fish, *Senior Vice President, Consumer Communications and Community Relations*

John V. Luck, *Senior Vice President and Technical Director*

Edward K. Smith, *Vice President and Controller*

Clifford L. Whitehill, *Vice President and General Counsel*

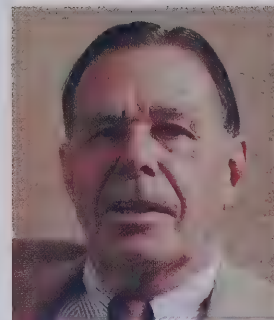
James L. Weaver, *Treasurer*

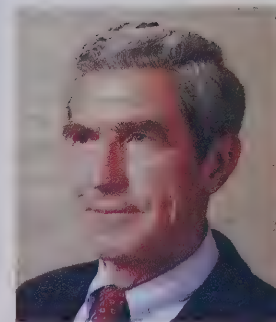
James M. Neville, *Secretary*

*Elected June 27, 1977


E. Robert Kinney


H. Brewster Atwater, Jr.


Charles H. Bell


Thomas M. Crosby


Kenneth N. Dayton


J. Wilbur Feighner


Philip B. Harris


Stephen F. Keating

Board of Directors

E. Robert Kinney, *Minneapolis, Chairman and Chief Executive Officer, General Mills, Inc.*

H. Brewster Atwater, Jr., *Minneapolis, President and Chief Operating Officer, General Mills, Inc.*

Charles H. Bell, *Minneapolis, former President and Chairman of Board, General Mills, Inc.*

Thomas M. Crosby, *Minneapolis, former Chairman of Board, Northwest Growth Fund, Inc., a Small Business Investment Company*

Kenneth N. Dayton, *Minneapolis, Chairman of Board, Dayton Hudson Corporation*

J. Wilbur Feighner, *Columbus, Georgia, Executive Vice President, General Mills, Inc.*

Philip B. Harris, *Minneapolis, former Chairman of Board, Chief Executive Officer, Northwestern National Bank*

Stephen F. Keating, *Minneapolis, Chairman of Board, Honeywell Inc.*

James P. McFarland, *Minneapolis, former President and Chairman of Board, General Mills, Inc.*

Louis W. Menk, *St. Paul, Chairman of Board, Chief Executive Officer, Burlington Northern Inc.*

John W. Morrison, *Minneapolis, Chairman of Board, Chief Executive Officer, Northwestern National Bank*

Gwendolyn A. Newkirk, *Lincoln, Nebraska, Professor and Chairman — Department of Education and Family Resources, University of Nebraska*

Milton Perlmutter, *Woodbridge, New Jersey, President, Supermarkets General Corp.*

Charles F. Phillips, *Auburn, Maine, President Emeritus, Bates College*

Edward S. Reid, *New York, N.Y., Partner, Davis Polk & Wardwell, Attorneys*

Waverly G. Smith, *St. Paul, President, St. Paul Fire and Marine Insurance Company*

Donald F. Swanson, *Minneapolis, Senior Executive Vice President and Chief Financial Officer, General Mills, Inc.*

Richard L. Terrell, *Detroit, Michigan, Vice Chairman of Board, General Motors Corporation*


James P. McFarland


Louis W. Menk

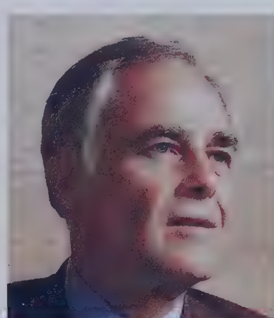

John W. Morrison


Gwendolyn A. Newkirk


Milton Perlmutter


Charles F. Phillips


Edward S. Reid


Waverly G. Smith


Donald F. Swanson


Richard L. Terrell

Board of Directors Committees

Executive Committee

James P. McFarland,
Chairman
H. Brewster Atwater, Jr.
Charles H. Bell
Kenneth N. Dayton
Stephen F. Keating
E. Robert Kinney
Louis W. Menk
Edward S. Reid
Donald F. Swanson

General Mills

Audit Committee

Charles F. Phillips,
Chairman
Thomas M. Crosby
Philip B. Harris
Louis W. Menk
Milton Perlmutter
Waverly G. Smith

Finance Committee

John W. Morrison,
Chairman
Charles H. Bell
Kenneth N. Dayton
Philip B. Harris
E. Robert Kinney
James P. McFarland
Louis W. Menk
Donald F. Swanson

Compensation Committee

Stephen F. Keating,
Chairman
Charles H. Bell
Philip B. Harris
Louis W. Menk
John W. Morrison
Gwendolyn A. Newkirk
Edward S. Reid
Waverly G. Smith
Richard L. Terrell

Public Responsibility Committee

Thomas M. Crosby,
Chairman
Stephen F. Keating
Gwendolyn A. Newkirk
Milton Perlmutter
Charles F. Phillips
Waverly G. Smith
Richard L. Terrell

Research Policy Committee

Richard L. Terrell,
Chairman
H. Brewster Atwater, Jr.
Charles H. Bell
Kenneth N. Dayton
E. Robert Kinney
James P. McFarland
Milton Perlmutter

Nominating Committee

Richard L. Terrell,
Chairman
Kenneth N. Dayton
Stephen F. Keating
Charles F. Phillips
Edward S. Reid

Operating Executives
of General Mills and Principal Subsidiaries

CONSUMER FOODS

F. Caleb Blodgett, *Executive Vice President*

Walter R. Barry, Jr., *Group Vice President*
Thomas P. Nelson, *Vice President — Control and Administration*
Arthur R. Schulze, *Group Vice President*
Preston Townley, *Group Vice President*

Domestic

Jason C. Becker, *Vice President, General Manager, Northstar Division*
Edward K. Bixby, *Vice President, General Manager, Package Foods Operations Division*
Ross N. Clouston, *Vice President; President, The Gorton Division*
Ray E. Brunswig, *President, Pioneer Products, Inc.*
James P. DeLapa, *President and Chief Executive Officer, Saluto Foods Corp.*
Marylee Duehring, *Vice President, Director, Betty Crocker Kitchens*
James J. Feeney, *Vice President, General Manager, Sperry Division*
James G. Fifield, *Vice President, General Manager, New Business Division*
Charles W. Gaillard, *Vice President, General Manager, Golden Valley Division*
Robert W. Hatch, *Vice President, General Manager, Big "G" Division*
Donald L. Knutzen, *Vice President, General Manager, Betty Crocker Division*
Thomas J. Lee, *Vice President, General Manager, Procurement Division*
Howard L. Ross, *Vice President, General Manager, Grocery Products Sales Division*
Gordon W. Ryan, *Vice President and Director of Trade Policy and Customer Relations (retired May 31, 1977)*
Patrick J. Smithwick, *Vice President and Director of Trade Relations (effective June 1, 1977)*
Fletcher C. Waller, Jr., *Vice President, Director of Marketing Services*

Europe

Lionel Cossé, *Vice President and Regional Director; President and Managing Director, Biscuiterie Nantaise-BN, S.A.* (France)*
Caspar B. M. de Jong, *Vice President and Regional Director; Managing Director, Smiths Food Group B.V. (Holland)*
A. Van de Walle, *General Manager, Smiths Food Group S.A. (Belgium)*
J. Wolfgang Zach, *Joint Managing Director, Feldbacher Backwarenfabrik Dr. Josef Zach GmbH* (Austria)*
Jack A. Liquorish, *Vice President and Regional Director; Chairman, Smiths Food Group; Managing Director, Smiths Division (U.K.)*
Ken Morgan, *Managing Director, Snakpak Nut and Biscuit Division (U.K.)*
Eric Smith, *Managing Director, Tudor Food Products Division (U.K.)*

Canada

John D. Herrick, *Vice President, Chairman, General Mills Canada, Ltd.; General Manager, Grocery Products Division*
A. M. Aymong, *President, Lancia-Bravo Foods Division*
Bruce O'N Hyland, *General Manager, Blue Water Seafoods Division — a Gorton Affiliate*

Latin America

M. M. Benidt, *Vice President, Director of Latin American and Export Operations*
Moises Benjamin, *General Manager, Grandes Molinos de Venezuela, S.A.**
Arthur P. Fischer, *General Manager, Industria Harinera Guatemalteca, S.A. and Industria del Maiz, S.A.* (Guatemala)*
Donald Halman, *General Manager, General Mills de Panama, S.A.**
Paul Kaufmann, *Vice President and General Manager, General Mills de Venezuela, S.A.*
Gustavo Martinez, *General Manager, Productos de Trigo, S.A.* (Mexico)*
Alfredo Montealegre, *General Manager, Industrias Gem-Ina, S.A.* (Nicaragua)*

Far East

Motoshige Kobayashi, *Representative Director, President, General Mills Japan, Ltd.; Executive Vice President, Morinaga General Mills, Ltd.* (Japan)*
Heizo Kunishima, *President, Morinaga General Mills, Ltd.* (Japan)*

*Partially owned

SPECIALTY FOODS

J. Wilbur Feighner, *Executive Vice President; Chairman of Board, President, Tom's Foods Ltd.*

Stewart F. Lyman, *Vice President; President, The Donruss Co.*
Michael L. Tracy, *Vice President; President, GoodMark Foods, Inc.*

RESTAURANTS, SPECIALTY RETAILING, FURNITURE, CHEMICALS AND O-CEL-O

Eugene E. Woolley, *Executive Vice President, Restaurants, Specialty Retailing, Furniture, Chemicals and O-CEL-O*

James H. Ruben, *Group Vice President, Specialty Retailing Group, Furniture Operations*

Specialty Retailing

Wesley W. Harris, *President, Eddie Bauer, Inc.*
Albert Hoffman, *Vice Chairman and Chief Operating Officer, Wallpapers To Go, Inc.*
Kenneth Hoffman, *President, Wallpapers To Go, Inc.*
Larry P. Kunz, *President, LeeWards Creative Crafts*
Rudolf L. Talbot, *President, The Talbots, Inc.*

Furniture

Robert E. Zimmerman, *President, General Interiors*

Restaurant Activities

William B. Darden, *Vice President; Chairman, Red Lobster Inns of America, Inc.*
Joe R. Lee, *Vice President; President and Chief Executive Officer, Red Lobster Inns of America, Inc.*
Elliott S. Grayson, *President, York Steak House Systems, Inc.*
William A. Lantz, *President, E. H. Thompson Company*

Chemicals:

Donald W. Carlson, *Vice President; President, General Mills Chemicals, Inc.*

Europe

Adolfo Bogoncelli, *Managing Director, Nutralgum S.p.A. (Italy)*
John Chambers, *Managing Director, General Mills Chemicals (U.K.) Limited (a division of General Mills U.K. Limited) (England)*
Walter A. Rutledge, *Managing Director, General Mills Chemicals (Ireland) Limited*

Mexico and South America

Ricardo Madero, *President and General Manager, General Mills de Mexico, S.A. (Mexico)*
Juan Sabaté Perez, *Director-President, Indusquima, S.A. (Brazil)*
C. W. Bradley, *President, Poliamidas de Venezuela, C.A.**

Other

Asghar Habib, *General Manager, Habib-General Limited* (Pakistan)*
C. F. Pozzani, *President, General Mills Chemicals (Japan) Ltd.*
Percy Trope, *Managing Director, Trochem (Pty) Ltd.* (South Africa)*

O-Cel-O

Joseph W. Grieco, *Director of Operations, O-CEL-O*

CRAFTS, GAMES, TOYS, FASHION AND TRAVEL

Robert K. Swanson, *Executive Vice President, Crafts, Games, Toys, Fashion and Travel*

F. William Graham, *Group Vice President, Fashion Group*
Paul J. Curran, *Vice President, Manager, International Operations, Craft, Game & Toy Group*
Ted C. Betker, *Vice President, Market Coordinator, International Operations, Craft, Game & Toy Group*
George B. Stephan, *Vice President—Control and Administration*

*Partially owned

Crafts, Games, Toys:

Domestic

Randolph P. Barton, *Vice President; President, Parker Brothers*
James T. Boosales, *President, Fundimensions*
William D. Hawfield, Jr., *General Manager, Bowers & Ruddy Galleries, Inc.**
Bernard Loomis, *Vice President; President, Kenner Products*
Wesley P. Mann, Jr., *President, H. E. Harris & Co., Inc.*

Europe

Werner Balzer, *General Manager, General Mills, Inc., German Branch (West Germany)*
Robert Fieldhouse, *Chairman, Managing Director, Denys Fisher Toys Limited (U.K.)*
Jacques Gobiet, *General Manager, Deska S.A. (Belgium)*
Michel Habourdin, *Vice President; President, French Group*
Christian Lauffer, Sr., *President, Clipper Games and Toys B.V. (Holland)*
Robert B. Simpson, *Vice President; Chairman, General Mills U.K. Toy Group; Managing Director, Palitoy Limited (U.K.)*

Canada and Mexico

John P. Eckert, *Vice President; President, Lili-Ledy, S.A. de C.V. (Mexico)*
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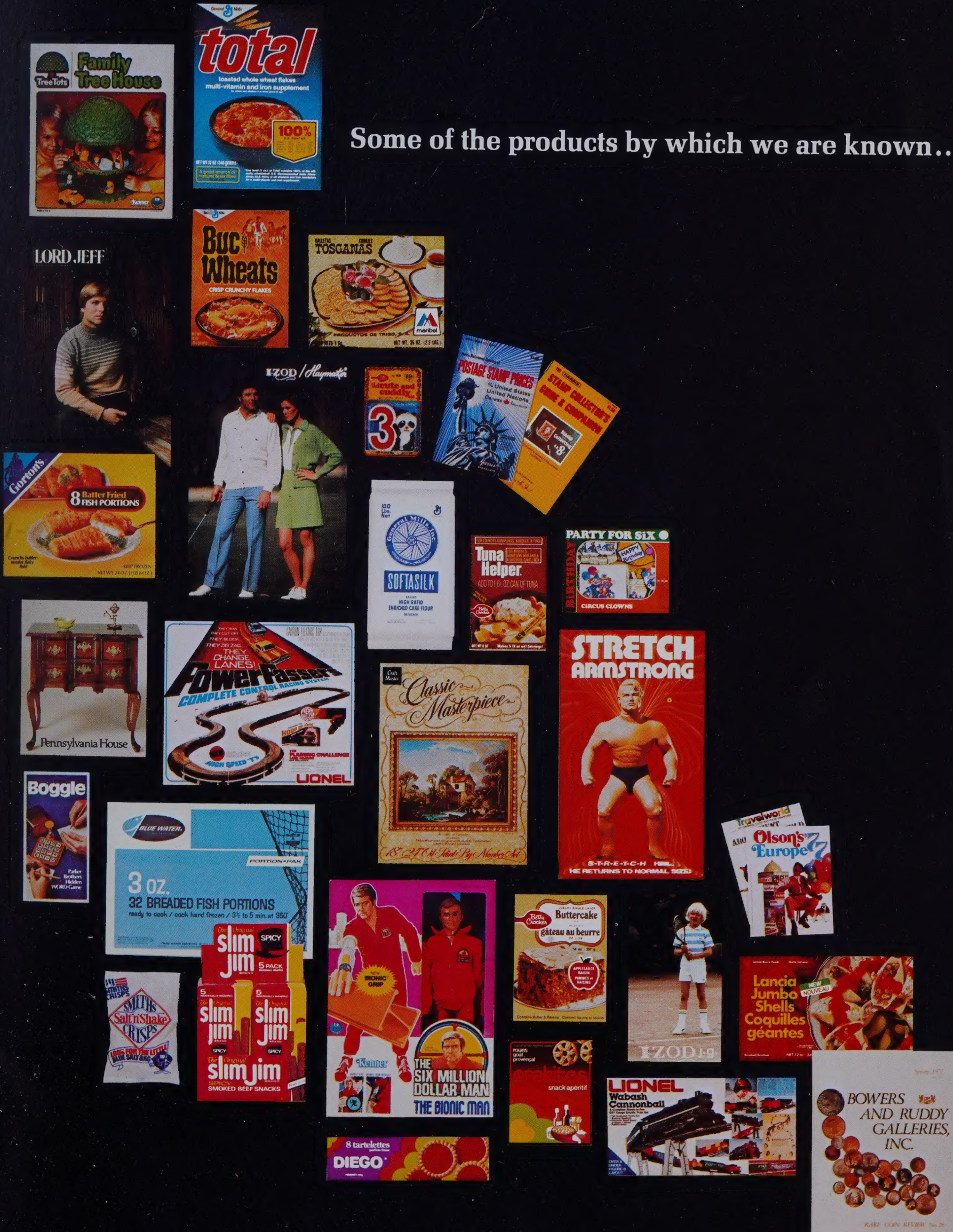

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